REPORT

OF THE

INDIAN TAXATION ENQUIRY COMMITTEE 1924-25.

VOLUME I



MADRAS

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PERSONNEL OF THE COMMITTEE:

Sir CHARLES TODHUNTER, K C S I, I C S, *President*

Sir BIJAY CHAND MAHTAB, G C I E K C S I, I O M., Maharajadhiraja Bahadur of Burdwan

Sir PERCY THOMPSON, K B E, C B

The Hon'ble SARDAR JOGENDRA SINGH

Dr. R P. PARANJPYE

Dr L K HYDER, M L A

Mr. B RAMA RAU, I C S, *Secretary*

"All undertakings depend upon finance."

Kautilya's Arthasastra

REPORT OF THE INDIAN TAXATION ENQUIRY COMMITTEE.

CHAPTER I —INTRODUCTORY

Instructions to the Committee

1 The main items of the Government of India's directions for a general enquiry into Indian Taxation are contained in a Resolution of the Finance Department (Accounts and Finance—Miscellaneous) No 1412 F, dated Simla, the 26th May 1924, as follows —

(1) To examine the manner in which the burden of taxation is distributed at present between the different classes of the population

(2) To consider whether the whole scheme of taxation—Central, Provincial and Local—is equitable and in accordance with economic principles, and, if not, in what respects it is defective

(3) To report on the suitability of alternative sources of taxation

Further details relating to particular portions of the enquiry are given in the chapters to which they relate, and the full text, both of the original order and of certain subsequent additions to and interpretations of it, will be found in an appendix

Appointment of Members tour and witnesses

2 The President and three members of the Committee were appointed by the Resolution above cited, a fourth member was added in October 1924, and a fifth in November of the same year The Committee issued a questionnaire in December 1924, and after attending the conference of the Indian Economic Association at Benares in January 1925, proceeded on a tour to the headquarters of the Local Governments, which lasted with short intervals till the middle of June They examined orally or in writing 288 witnesses, of whom 66 were members of legislative bodies, 110 officials, 35 economists, 18 business men, and 59 representatives of associations and other non-official gentlemen In addition they received contributions from 81 private gentlemen and associations, and numerous notes and memoranda on different aspects of their enquiry from the Government of India, Local

Governments, the Central Board of Revenue and other bodies. They take this opportunity of acknowledging the very ready response made to their many requisitions and the large measure of help they have received alike from Governments and from private persons. In particular they desire to express their sense of obligation to Sir Josiah Stamp, who found time amid his many occupations to send them a most valuable set of notes on their questionnaire, embodying with his own opinions notes on special subjects by Professor Seligman and Dr. Gregory.

3. In the meanwhile, the part of their enquiry which related to the examination into the economic condition of the people was for the most part transferred to the Economic Enquiry Committee, whose report has already been issued.

4. In the following pages the Committee propose to examine, first, the scope of the problem set to them, as limited by the taxes at present levied in India, secondly, the merits of the several taxes existing or proposed, and thirdly, their incidence on typical classes of the population. Having done this, they propose to arrange in order of priority, first, those which in their opinion might be abolished or reduced, and second, those which might be either imposed or enhanced in order to make good the resulting loss of revenue. They conclude by examining the best method of dividing the various taxes between the different governing authorities and the methods of administration which will best conduce to their smooth and efficient working.

5. In addition to the evidence, they have attached to the report a series of appendices in illustration of particular points, and these include in some cases monographs in which the information collected by them in respect of particular taxes has been brought together. These are attached to the report merely as a source of reference. It has not been possible in dealing with a subject of such magnitude as that referred to the Committee to put into the report itself anything more than a summary of the facts sufficient for an understanding of their recommendations. Further facts bearing on the questions in issue will be found by those who require them in the monographs, which also embody statements, borrowed, wherever possible, from their authors, of the

cases for and against particular schemes The Committee desire, however, to emphasise that nothing in these documents is intended as in any way representing an expression of their collective opinion, for which the report alone should be referred to

6 In issuing the Resolution above referred to, the Government of India expressed a hope that the Committee would be able to submit their report within the space of a year They regret that they have exceeded that period by a little more than a month This is due partly to a combination of adverse circumstances, but more largely to the magnitude of the task set to them It is a matter of extreme difficulty at any time for non official members to give up a period of a year to an enquiry of this sort, and the fact that some members had urgent affairs of their own to attend to made it impossible for them to be continuously present In addition to this all the four Indian members of the Committee have been engaged by the Government of India at different times on other enquiries such as the Indian Reforms Enquiry Committee, the Auxiliary and Territorial Forces Committee and the Indian Sandhurst Committee The work of the Committee has also been considerably disturbed by ill health While Sir Percy Thompson was incapacitated for over a month during the most critical period of the discussions, the work of the office has from time to time been dislocated by breakdowns on the part of the staff *The time taken*

7 The Committee would venture to add that the time taken by their enquiry, long as it has been, appears to them to be comparatively short when examined in the light of the task set and of the time taken by other Committees or Commissions entrusted with enquiries of a similar nature The Australian Royal Commission on Taxation was appointed on the 10th September 1920 and they did not submit their fifth and last report until the 28th February 1923 The Departmental Committee on Local Taxation in England and Wales took two years, and the Royal Commission on Local Taxation 4 years and 10 months Lord Colwyn's Committee, which was appointed in March 1924 to report on the national debt and the incidence of existing taxation with reference to its effect on trade, industry, employment and national credit is still sitting, so far as the Committee are aware Even in the case of Committees or Commissions which enquired *Comparison with that taken by similar enquiries*

into single taxes, a year has not always been found sufficient. The South African Committee of Enquiry into the Taxation of Incomes derived from Farming Operations took 14 months, the Royal Commission on Opium 19 months, the Indian Hemp Drugs Commission 13 months, and the Burma Municipal Taxation Committee 13 months, almost the same as the time taken by the present enquiry into all the aspects of taxation of a continent, to which the question of the distribution of the revenues has been added.

8. The Committee cannot but be conscious of the imperfections in their report, resulting from the pressure under which their deliberations and the drafting of it have been conducted. The fact that they are not more numerous than they are must be attributed to the manner in which their Secretary, Mr. B. Rama Rau, has devoted to his task an untiring industry and abilities of a high order. In acknowledging their indebtedness to him, they would like also to mention the assistance received from the three Assistant Secretaries who have helped the Committee at different times, Mr. J. V. Joshi, M.R.Ry. Rao Bahadur S. K. Sundaracharlu Avargal and Mr. A. R. Rebello. They also desire to tender their acknowledgments to the Hon'ble the President of the Madras Legislative Council and the Madras Government for lending them the services of M.R.Ry. Rao Bahadur R. V. Krishna Ayyar Avargal, as Legal Adviser, and to the Rao Bahadur himself, who, in the midst of his other duties, unreservedly placed at the disposal of the Committee all the resources of his legal knowledge. Without his aid the chapters in which the Committee have dealt with the questions of taxes on transactions, fees and probate duties would have been deprived of much of any value they possess. Their acknowledgments are also due to the members of the staff, who have had to work overtime in the effort to get the work completed, and to the Superintendent of the Government Press, Madras, for his exceptionally prompt and accurate work in the printing of the report.

9. The report was signed by Sir Percy Thompson, Dr. Paranjpye and Dr. Hyder at Bangalore on the 4th December 1925 and by the President, the Maharajadhiraja Bahadur of Burdwan and the Hon'ble Sardar Jogendra Singh at Calcutta on the 14th of the same month.

The Hon'ble Sardar Jogendra Singh was unable to take part in the final discussions of the report and was consequently unable to discuss with his colleagues certain aspects of the taxation problem which he has described in a separate memorandum Sir Percy Thompson wishes to express his regret that, owing to serious indisposition, he has been unable to take a full share in the revision of some of the chapters of the report While, therefore, his responsibility for the drafting and for some of the arguments advanced is limited, he takes full responsibility for the conclusions arrived at, with which, on the material available to him, he is entirely in accord, except to the extent to which he has definitely expressed dissent The other members accept full responsibility for the statements made in the report, except in so far as these are qualified in the chapters themselves, but some of them have thought it desirable to add memoranda defining the conditions under which they think it desirable that effect should be given to their recommendations

CHAPTER II.—THE SCOPE OF THE PROBLEM.

The sources of State revenue.

10. The sources of the revenue of a State were classified as follows by a very early writer on the subject :—

"Now there are in general seven ways of raising public revenues (*fonds aux finances*), which include all that can be thought of. The first is the landed domain of the commonwealth; the second, conquests from enemies; the third, gifts from friends; the fourth, tributes from subject states; the fifth, public traffic or trading; the sixth, customs duties upon merchants who bring in or carry out merchandise; and the seventh, taxes upon the citizens".*

The more modern writers would classify these sources somewhat on the following lines :—

(1) State domains and tributes.
(2) Fines and penalties.
(3) Business undertakings and monopolies.
(4) Fees.
(5) Taxes.

And some of them would classify these various heads under the categories of non-tax revenues, quasi-taxes and taxes proper.

The element of taxation in each.

11. In an enquiry into the taxation of a country it is necessary in the first place to determine exactly what items of revenue fall within the scope of the enquiry, and this is a matter of no small difficulty owing to the division of opinion among the best authorities as to where taxation begins and ends. Professor Edgeworth has stated that "what is the best definition of a tax is an interminable enquiry"† and Dr. Dalton has added that "the search for a classification is more instructive than the classification when found."‡ Most economists, however, are agreed that two of the most essential characteristics of a tax are (1) that it is a compulsory payment made to the State, and (2) that there is no immediate quantitative relation between the tax paid by the individual and the service rendered to him by the State. The Committee's purpose, as set forth in the terms of reference, involves two aspects of the problem, the first, the administrative, the second, that of incidence.

* Jean Bodin : les six livres de la République, VI, 2.

† Royal Commission on Local Taxation, Memoranda relating to Imperial and Local Taxes, 1899, page 127.

‡ Dalton : Public Finance, Chapter IV.

For use in their enquiry into the former aspect they propose, without suggesting it as in any way a formula for general adoption, to take as a working basis the following definition of taxation —

> "Taxes are compulsory contributions made by the members of a community to the governing body of the same towards the common expenditure without any guarantee of a definite measured service in return"

This definition will not cover certain items which are sometimes included in the term 'taxation' for the purpose of reckoning incidence, such as, for instance, the net profits of the business undertakings of the Government, but the Committee do not propose to go into details of the way in which these revenues are derived, since that would involve bringing under scrutiny practically the whole administration of large departments

12 There are certain items commonly included under the Land Revenue which clearly do not fall within the Committee's definition of taxes, and are creditable to the head of revenues from State domains rather than to any other Such are the sale proceeds of Government estates and sale proceeds of waste lands State domains —revenue from State lands

13 In a similar category are revenues derived from the lease of fisheries and from mines which are the property of the Government The first represents the rent fixed by competition for the right to collect and sell the produce of waters under the control of the Government while the second represents the rent voluntarily paid to the Government for the right to exploit minerals belonging to it — fisheries and mines

14 The case of forests is not dissimilar These are under the control of the Government, who have something approaching a monopoly in parts of India, but not a complete one The produce is sold at prices which do not compare unfavourably with those charged by private parties The purchaser in every case obtains a *quid pro quo* and is under no direct compulsion to buy It appears to the Committee that on the whole there is no element of true taxation in the forest revenue, and that this also does not fall within the scope of their enquiry —forests

15 It has been suggested in some quarters that the land revenue itself should not be classed as taxation on the ground that the State is the proprietor of the soil, and —the land revenue generally

that it is more properly described as a rent. This question will be fully discussed in the chapter dealing with the Land Revenue, from which it will be seen that, if the land revenue has some of the characteristics of a rent, it certainly has many characteristics of a tax also. Moreover, the Committee have been directly instructed to enquire into its incidence, together with that of the other taxes. Consequently for the present purpose they propose to include it under the head of taxation.

Fines and penalties.

16. The classification of fines and penalties is not easy. They are commonly divided between those that are imposed on account of offences against the State and those that are imposed in connection with the regulation of the revenue. Professor Seligman includes both categories under the head of taxes on the ground that, if it is once admitted that any payment exacted by the State, not with the object of securing revenue, but with some ulterior purpose, may be classed otherwise than as a tax, it might become necessary to exclude a considerable portion of the revenue of modern States from the category of taxation. He instances among other things the excises levied for the purpose of discouraging consumption.* The Committee recognise that there are a number of border line cases in which it may be difficult to determine whether a particular collection is for revenue or for restriction, but it does not appear to them that this difficulty is prominent in the case of fines and penalties, or that there need be any real difficulty for practical purposes in distinguishing penalties imposed in connection with regulation of the revenue, which they propose to treat as taxes, from those imposed primarily for purposes of restraint, which they do not.

Prices—the difficulty of classification.

17. The category of prices, or revenue from State undertakings, is a large and difficult one, including, in the case of the Imperial Government, receipts from railways, posts and telegraphs, purchase and sale of opium, profits of coinage, interest and miscellaneous; in the case of Provincial Governments, receipts from irrigation; and in the case of local bodies, receipts from markets and slaughter houses, from charges for special services, and from tolls and ferries in certain cases. How difficult it is to determine the exact classification to be assigned to certain of these items of receipts may be judged from the replies given by certain leading economists and others

* Seligman: Essays in Taxation, page 403.

to one of the questions asked them by the Royal Commission on Local Taxation in 1897, namely, should such an item as the net revenue of the post office be treated as a tax The following are extracts from the replies which represent different schools of thought on the subject —

Mr Edwin Cannan "If any part of the gross revenue is a tax, the whole must be In considering the 'equity of taxation', it is not desirable to adopt any narrow view of the meaning of taxation, since the action of the State must be considered as a whole I should therefore not be inclined to exclude the whole or any part of the post office gross revenue from the present enquiry "

Lord Farrer "I think that the surplus revenue of the post office after paying the expenses of the service is rightly treated as a tax "

Professor Bastable "In respect to the post office revenue, two different views of almost equal plausibility may be taken, namely —(1) that which treats the post office as a State industry obtaining a monopoly profit through the economy which monopoly makes possible We may perhaps with justice assume that under private competitive industry postal rates would not be lower than at present Therefore the gain is in a sense 'earned' by the State But (2) we may also regard the State as only entitled to ordinary profit on the capital it employs, and then we must hold that the surplus is a kind of taxation If this latter view (which is, I think, the better one) be taken, we must further note that this tax falls, not on the whole, but on a part of the postal service "

Professor Sidgwick "I am quite willing to follow Sir E Hamilton, and take net revenue as the only estimate practically available of the tax imposed through the post office monopoly I do not, indeed, think that it is, strictly speaking, the right estimate In estimating how much Englishmen are taxed through their payments for postal services, we ought strictly to consider, not how much they pay beyond what these services cost, but how much they pay beyond what they would have to pay if the Government gave up its monopoly "

In deciding which of these schools to follow, the Committee have been largely guided by the practical consideration of the figures that are available The ascertainment of the normal commercial profit of any enterprise is a matter of extreme difficulty in any case It would be quite impossible in India to arrive at a figure of the profit that

might be made by a private enterprise if it were conducting services which are now conducted by the Government.

—The profit on railways. 18. The figure available in the case of railways is that resulting from the separation of railway from general finance. Under this compact it was agreed that there shall be paid to the Government of India annually a contribution which "shall be based on the capital at charge and working results of commercial lines, and shall be a sum equal to one per cent on the capital at charge of commercial lines (excluding capital contributed by companies and Indian States) at the end of the penultimate financial year, *plus* one-fifth of any surplus profits remaining after payment of this fixed return, subject to the condition that, if in any year railway revenues are insufficient to provide the percentage of one per cent on the capital at charge, surplus profits in the next or subsequent years will not be deemed to have accrued for purposes of division until such deficiency has been made good.

"The interest on the capital at charge of, and the loss in working, strategic lines shall be borne by general revenues and shall consequently be deducted from the contribution so calculated in order to arrive at the net amount payable from railway to general revenues each year.

"Any surplus remaining after this payment to general revenues shall be transferred to a railway reserve, provided that, if the amount available for transfer to the railway reserve exceeds in any year three crores of rupees, only two-thirds of the excess over three crores shall be transferred to the railway reserve, and the remaining one-third shall accrue to general revenues."*

It is an open question whether even the amount so paid is true taxation, but on the whole the Committee are disposed to think that it should be included.

—posts and telegraphs. 19. In the case of posts and telegraphs the difficult process of putting the accounts on a commercial basis is only just complete, and the Committee understand that for the year last closed there was no net profit.

—opium. 20. In the case of opium, in so far as the Imperial Government are concerned, there does not appear to be any element of taxation of the people of the country, except in so far as the restriction of cultivation reduces

* *Proceedings of the Legislative Assembly*, 17th September 1924.

the cultivator's choice of crop The revenue derived from opium exported is paid by foreigners and does not fall within the scope of the Committee's definition The profit on sale of opium prepared for medicinal purposes is negligible In the case of the purchase, manufacture and sale of opium to Provincial Governments, a set of commercial accounts is now being introduced, and as soon as this has been completed, the price charged will be the cost price as ascertained There will thus be no element of tax at this stage

21 The profits on coinage may involve taxation at a time of inflation, but in normal circumstances do not appear to the Committee to do so It is not clear whether any profit results from transactions in borrowing and lending money, and even if it could be ascertained, it is doubtful if it would properly be classed as tax revenue —profits on coinage etc

There do not appear to be any items of taxation included in the miscellaneous receipts such as receipts from civil departments

22 In the case of provincial heads of revenue, including those of the Imperial Government where it is conducting provincial functions, the most difficult question arising concerns the price paid for water A great deal of controversy has raged over the question whether a Government which has a monopoly of irrigation and supplies water to the persons who benefit by irrigation works should charge just what it costs to supply the water, or a fair commercial profit, or as high a rate as those benefited can afford to pay A corollary arising out of the controversy is the question whether, where a profit is realised, there is an element of taxation —the charge for irrigation

The case is of course different from that of the railways and the post office inasmuch as those services are of benefit to the community as a whole, whereas in the case of irrigation the benefit provided by the use of the credit of the general tax-payer enures to the holders of certain particular lands The Committee are divided in opinion as to whether the charge for water involves an element of taxation or not It falls, however, essentially within the scope of their enquiry in view of its intimate connection with the land revenue and of the specific inclusion of water-rates within their terms of reference, and therefore they propose to treat it on this basis, taking for practical purposes the net profit on the undertaking as a whole as representing the element of taxation.

—enterprises of local bodies.

23. In the case of the local authorities, where a local authority makes a profit on markets or slaughter houses, more particularly if it uses its power to establish a monopoly of trade at these places, the profit so made amounts indirectly to a tax on consumption. A more difficult case arises in the case of rates levied for particular services, such as water-supply. Where the water is metered and the charge for water is adjusted so as just to cover the cost of the supply in each case, it amounts clearly to a price and not a tax. But under Indian conditions there is practically no town in which such an exactly measured charge is made, and in a great majority of cases the charge does not appear even to recoup the cost of the supply. Moreover, the method of charging varies from place to place. On the whole it seems to the Committee best in the circumstances to reckon these rates in with the rates charged for services of a more general nature. In the case of tolls and ferries again, there are some cases in which the element of price prevails, as where a toll is levied for a limited period and the proceeds earmarked for the building of a bridge. In the majority of cases the greater part of both tolls and ferry charges amounts to a tax on transit, and the Committee have decided therefore to include them under the head of taxation revenue.

Fees.

24. Fees have been defined as "charges arbitrarily fixed by a Government in amount and method of payment, which individuals or groups of individuals pay as a special compensation for some service rendered by a public body, or for some expense which the individuals have caused the State in the exercise of its functions."* Fees, however, tend to develop into taxes, and it is therefore necessary to attempt to distinguish where the compensation for service rendered ends and where the taxation begins. Generally speaking, there may be said to be three stages. There is, first, the cost of rendering the service, second, the value of the service rendered, which may considerably exceed the cost, and thirdly, the case in which the fee exceeds the value. In the second case, where the utilisation of the services is rendered compulsory by legislation, there is an element of taxation, but the element of payment for services still prevails. When the fees exceed the value of the services, there is true taxation.

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* Wagner: Finanzwissenschaft, section 277.

The majority of the fees levied in India are levied by Provincial Governments, or local bodies Some are for regulation only, such as fees for copyright, fees for licenses in connection with explosives or petroleum, and fees for carrying on offensive or dangerous trades An element of taxation appears in a second group, such as fees for gun licenses, fees for registration of companies, fees for registration of documents and court-fees Finally, there are cases in which it is predominant, such as fees for licenses to sell intoxicants, which are practically an indirect excise All these considerations are dealt with in more detail in the chapter on Fees The Committee have not followed the practice of some writers who consider the duties on the transfer of property as fees These appear to them to be pure taxation, and they have dealt with them under the head of taxation of transactions

25 To come now to the last of the five heads under consideration There is no doubt as to the classification as taxes proper of capitation and apportioned taxes, including the *thathameda* and the *choukidari* tax, taxes on transactions, including those on entertainments and betting, and taxes levied under the Stamp Act, income tax and super tax, and probate duties The remaining items call for one or two remarks Taxes proper.

26 In the case of the land revenue, the Committee propose to treat as revenue from State domains sums received from the disposal of Government estates and waste lands A more difficult case is that of land revenue alienated as payment for services, either continuing or in the past The sum involved is very large and there are great variations in the conditions while one province may pay its village servants in cash, another may do so by remitting land revenue on particular lands, remissions similar to those made in favour of the village officers who serve the Government may be made in the case of the servants of the village community, others have been made in favour of pensioners, still another class of remissions is in favour of temples and *devasthanams* still further removed is the case of the jaghirdar, and lastly there is the case of the large number of revenue-free estates which represent rewards for services rendered, in most cases to predecessors of the British Government It is obvious that there would be a most misleading difference in the incidence shown if, in two provinces similarly situated, one credited a sum of Land Revenue the case of alienation

one or two crores of rupees of land revenue and debited it to pay of village officers, while the other, owing to the system of alienation of the land revenue, made no entry on either side of the account. It is urged, on the one hand, that the alienation of an item of revenue is the equivalent of a double transaction of collection and payment and should therefore be reckoned as tax-revenue, and that its disposal is immaterial to the tax-payer. On the other hand, it is pointed out that, if this argument were followed out to its logical conclusion, it would be necessary to include in the land revenue a sum equal to that which would be collected if there were no alienations and no revenue-free lands, which of course is impracticable. The only practicable course which presents itself to the Committee is to bring into the category of taxation the land revenue which is alienated as a payment for actual services now rendered to the State, and to ignore the rest.

Customs—export duties.

27. Under the head of Customs, with reference to the suggestion above made that, for the Committee's purposes, taxes should include only sums paid by the members of the community, they do not propose to make any exception in the case of export duties on the ground that these are paid by the foreigner. They are always paid in the first instance by members of the community, and the shifting of the burden is by no means a matter of certainty.

Restrictive excises.

28. Again, under the head of Excises, the Committee propose to include the whole of the revenue from excises imposed for purposes of restriction, although, when it comes to the question of incidence, they propose to adopt the view of Sir Josiah Stamp that these cannot be regarded as involving incidence on classes which do not consume the articles excised.

Local taxation.

29. Under Local Taxation they propose to include octroi and terminal taxes, rates on houses and land and betterment taxes, taxes on circumstances and property, taxes on trades and professions, taxes on animals and vehicles, pilgrim taxes, local cesses, and revenue from tolls and ferries, subject to the limitations above mentioned. These taxes, however, are not taxes levied for the benefit of the community at large, and they partake of the nature of payments for services rendered far more directly than the ordinary imperial and provincial taxes. These are matters which must be taken into consideration in considering the question of incidence.

30 It remains to explain briefly the system of classification adopted in dealing with these taxes in the chapters which follow Capitation and apportioned taxes have been dealt with first as these are among the most primitive forms of taxation in all countries, and India is no exception Following them has been considered the land revenue which, until recent years at any rate, formed the backbone of the whole Indian fiscal system An examination of the charge for water follows, as this in many cases is linked up with the charge upon the land Next follows the large group of imperial and provincial taxes on consumption, that is to say, customs duties and excises, also long established taxes in India Following them are the more recently developed income tax and super-tax The Committee have next taken up the examination of the taxes on transactions, the chief of which are the stamp duties, which are more important in this than in some other countries They next examine the cognate group of fees Following the question of fees they have dealt with probate or succession duties, largely for the reason that, though they are entirely different in character from court fees, they are at present included under the Court-fees Act The order of treatment

They have, as above indicated, entered upon no discussion of the taxation element in railways, or the post and telegraph services They have treated revenue derived from Government forests and mines, and in certain circumstances from Government lands, as revenues derived from State domains They have not thought it necessary to enter into any discussion of taxes levied by Port Trusts or other similar bodies, which are entirely earmarked for special expenditure Lastly, they have dealt separately with local taxation which, as indicated above, operates more directly than the imperial or provincial taxes as a payment for services rendered, and in dealing with this they have followed the same order as in the case of the imperial and provincial taxes, considering, first, the taxes on consumption and rates, second, the taxes on persons, and third, the fees and miscellaneous taxes

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CHAPTER III.—CAPITATION AND APPORTIONED TAXES.

Capitation Taxes.

Poll taxes have been and still are more common than is sometimes supposed.

31. Poll taxes belong to a primitive stage of civilisation and they are open to the obvious objection that they are regressive in character. The collection of these taxes in modern towns with a comparatively large migratory population is also a costly and difficult process. These defects have led to two parallel developments of this form of taxation. In the one case, the capitation tax has developed into an income-tax, in some cases passing through the intermediary stage of a license or profession tax. In the other, it has been replaced in whole or in part by indirect taxes on articles of universal consumption, as in the case of the salt tax. Poll taxes have thus ceased to be important sources of revenue in the more advanced States, but they have been and still are far more common than is generally supposed in Europe, in America, in the British Empire and in Eastern countries, in all of which survivals of them are still to be found. Sir Josiah Stamp considers that a light poll tax seems not unsuitable to Indian conditions.

Poll taxes in Europe.

32. In France, *prestations* for the upkeep of roads have long been an important feature of the working of agricultural *communes*, but of late years they have been rendered less vexatious as a result of the grant of permission to pay in team-supply or labour or money according to convenience. The French capitation tax (*contribution personnelle mobilière*), which originally represented the value of three days' labour and was subsequently combined with a tax on rentals, was levied as an apportioned tax both for State and communal purposes up to 1917, but even before that date, had in many cases ceased to be a poll tax, largely as a result of the provision under which towns were permitted to pay their share out of the proceeds of the octroi duties. The tax is now imposed only for departmental and communal purposes, but a State poll tax of 20 francs per head finds a place among the recent emergency proposals of the French Government. A capitation tax is still levied in Sweden, where it is a fairly important source

of revenue and also in some of the Cantons in Switzerland A similar tax has apparently been recently revived in Russia on all able bodied citizens between the ages of 18 and 60 with the exception of certain workmen, soldiers students mothers supporting families and unemployed peasants

In the United States of America.

33 In the United States of America the poll tax has for a long time been employed by a majority of the States At present, 38 out of 48 States have legal provision for the tax, but with the development of the property tax, the poll tax has ceased to be an important source of revenue in the Northern States and in most of them, it is no longer levied In the Southern States it has survived to a greater extent and in some of them payment of the tax is one of the conditions of suffrage Together with other restrictions it keeps negroes away from the polls * Even in these States it is mostly utilised for local services such as schools roads and poor relief The aggregate income from this source in 1922 of all the States and local authorities was 29 million dollars out of a total tax revenue of 4 221 million dollars and it was levied for State purposes in only eleven States †

In Eastern countries

34 Poll taxes are also levied in Turkey, Persia China Siam Madagascar, French Somaliland Ceylon and other Eastern countries, but except in Ceylon, Siam and the Philippines they do not form a very important source of revenue In Siam the capitation tax was first levied only on the Chinese but since 1924 it has been imposed on practically all residents It now yields half the direct taxation levied by the State and is roughly equal in amount to the yield of the land tax In the Philippines for more than three centuries the poll tax yielded more revenue than all the other sources combined but the high yield was made possible by the development of the capitation tax into a classified occupation tax After the American conquest the graduated capitation tax has been considerably reduced and the proceeds now are mainly devoted to education and other local purposes

In the British Empire.

35 In the British Empire the poll tax is found in addition to Ceylon in British Columbia the Union of South Africa, Fiji and the East African Colonies In

* Jensen Problems of Public Finance page [illegible]

† Bureau of the Census Washington Wealth, Public Debt and Taxation, 1922

British Columbia, under the law of 1917, every male person over the age of 18 is required to pay an annual poll tax of 5 dollars, but soldiers, sailors and persons who have paid taxes on land, personal property, or income or license fees in excess of 5 dollars are exempt. In Africa, the tax is found in the Transvaal, Kenya and Tanganyaka. In the Transvaal, the rates of poll tax are for married individuals £1-10*s*. *plus* 15 per cent of the income-tax paid in the previous year. In the case of unmarried adults below twenty-five years of age who do not pay income-tax, the rate is £1-10*s*. For other unmarried adults, the rate is £2-5*s*. The poll tax is not now levied on the African population. In Kenya, the tax is levied on the African as well as the immigrant population, while in Tanganyaka, it is restricted to Africans who are not owners of huts. In the Cape Province, Natal and the Transkeian territories a hut tax varying from 10*s*. to 14*s*. per annum per hut is levied. Some colonies use similar taxation as a means of exercising control over the constitution of their population. For instance, New Zealand imposes a tax of £100 on every Chinaman who lands in the country.

n India. 36. Direct taxation of the nature of a poll tax has been known in India from very early times. In ancient Hindu India mechanics and artisans and Sudras who subsisted by manual labour were required to work for the State one day in each month. Under some of the Muhammadan kings, the *jezzia* or capitation tax was levied on all non-Muslims in lieu of military service, which was required of all Muhammadans.

The taxes of this nature that now survive are largely associated with and have been levied in lieu of the land revenue, and with the exception of certain backward tracts, such as Assam and British Baluchistan, they are confined to Burma, The following is a list—

(a) Taxes on fugitive cultivators —
  (1) The *taungya* in Burma.
  (2) The hoe or house or *dao* tax in Assam.
(b) The *thathameda* in Upper Burma.
(c) The capitation tax in Lower Burma.

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part in the cultivation of such land the rate being fixed from time to time by the Government subject to a maximum of Rs 2 per annum on each male cultivator or family of cultivators The levy of the tax is confined to certain areas of shifting cultivation, such as the hilly tracts of Lower Burma the Shan States and other frontier areas where there is no assessment on the land

The hoe tax or house tax in Assam is levied under section 47 of the Assam Land Revenue Regulation of 1886, which empowers the Chief Commissioner to direct that "in lieu of the revenue assessable on any land an annual tax may be collected on each person who has completed the age of 18 years taking part in the cultivation of land at any time during the year of assessment, or on each family or house of persons taking part as aforesaid" These taxes are more or less of the same nature, but they are assessed in slightly different ways in different districts, having been introduced by different officers The taxes are generally levied on the household at the rate of Rs 2 or Rs 3 per family The classes affected are mainly hill tribes inhabiting wild tracts where the cultivation is shifting and where consequently it is not possible to collect land revenue on a systematic basis

38 The same difficulty of dealing with the nomad led to the levy of a tax which was in a small degree analogous to these in the case of the nomad flock owners on the other side of India This is still levied in British Baluchistan, but it is graduated according to the size of the flock In the Punjab it developed into a hearth tax, the payment of which was accepted as evidence of settlement for the purpose of the distribution of colony land The case of graziers

39 Under the Burmese Kings in Upper Burma, no land revenue was collected except on the lands which were the property of the King and the *thathameda* was practically the only tax imposed on the villagers It was originally an apportioned tax The sum due from each village was first determined by multiplying the number of households in it by Rs 10 This total sum was then distributed over the individual households roughly with regard to their ability to pay by the village elders or *thamadis* The *thathameda*

After the annexation of Upper Burma by the British the question of the replacement of the *thathameda* by a capitation tax on Lower Burma lines was considered It

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was ultimately decided, when the land revenue was introduced, to retain the *thathameda* in its general form, but to convert it in the main into a tax on non-agricultural incomes. This involves a departure from the old Burmese practice of assessing each village at a sum equal to Rs. 10 multiplied by the number of households. Instead of that the sum payable by each village is fixed by multiplying the number of households by a figure which is assessed as part of the operations of the settlement of the land revenue, the main consideration in fixing it being the extent of the income derived in the village from sources other than agriculture. Where this is small, the rate varies from Rs. 2 to Rs. 5. Where it is large, it approaches and sometimes even exceeds the old limit of Rs. 10, which is still levied in unsettled areas where no adequate land revenue is collected. The rate so fixed for the village is still distributed over the individual households by the *thamadis* as before. As an exception domestic servants pay at a fixed rate of Rs. 2 and migratory coolies at one of Rs. 2-8-0 per head. The employees of certain companies are also assessed at special rates. The *thathameda* assessee pays income-tax if his income exceeds Rs. 2,000 a year; but is allowed a rebate of a sum equal to the amount paid by him as *thathameda*. The whole question is governed by section 22 of the Upper Burma Land and Revenue Regulation of 1889 and the notification thereunder. The collections for 1922-23 amounted to Rs. 41.42 lakhs.

Taking the general case of the settled areas only, it would seem from the above description that no objection on grounds of theory could be taken to the *thathameda* if it were assessed in the manner provided. It is understood, however, that in many cases the assessment of the *thamadis* is not only not made in proportion to ability, but also ignores the distinction between incomes derived from agriculture and those which are not. There is provision under the rules for objections being made to the Assistant Collector against the assessments; but it is in evidence that this right is rarely or never utilised in practice. Thus, though theoretically it is not a poll tax, in many parts it operates as one. It was on these grounds strongly condemned by the Burma Land Revenue Committee of 1920, who recommended that it should be converted into a local rate, and that the opportunity should be taken to assess it as a house tax according to the

quality of the building and the area covered by it, with possibly an exemption for dwellings of the poorer classes Under the Burma Rural Self Government Act of 1921, power has now been given to District Councils to substitute for the *thathameda* a circumstances and property tax, so that any District Council can, on its own initiative, secure the abolition of the tax Under the same Act, the rate at which such tax shall be levied shall not, on an average, be less than Rs. 2 or more than Rs 5 per annum per person liable to pay it

40 The capitation tax, which, unlike the *thathameda*, is not apportioned, but is levied at a fixed rate per person, was originally introduced in Lower Burma by the Burmese Kings, apparently with the object of determining the fighting strength of the country, and was paid in kind It was converted into a fixed payment of money after the British conquest, and its continuance under the British administration was justified on the ground that no salt tax was levied and that the rates of land revenue were low It is now collected in Lower Burma under section 34 of the Burma Land and Revenue Act of 1876 from all males between the ages of 18 and 60 years, ordinarily at the rate of Rs 5 per head from married men and Rs 2 8 0 per head from men who have no wives

The capitation tax

This tax, being a poll tax at a flat rate, operates with less discrimination than the *thathameda* and is very unpopular, partly for this reason, and partly because it has never lost the stigma which attached to it when it was imposed as a tax on conquered races The Rural Self-Government Act referred to above also provides for the substitution of the circumstances and property tax for the capitation tax The grant of the option to local bodies of converting it into a circumstances and property tax is, in the opinion of the Committee, an appropriate way of providing for its extinction The Committee would, however, recommend that in both cases the process of conversion should be expedited and that these two taxes should cease as early as possible to be sources of provincial revenue

Exempted persons.

An important feature of both these taxes is the provision for the exemption of certain fairly large classes of persons It will perhaps be sufficient to define the persons exempted from the capitation tax These include,

roughly speaking, Government servants, including village magistrates and village headmen; ministers and priests and teachers of religion; persons who are engaged in the work of education; persons who have no property or means of paying the tax, including those who are in prison; residents of places outside Lower Burma travelling from place to place; persons who have paid income-tax; and persons who are certified to have rendered special service to Government.

—and localities.

Another important feature of the capitation tax is the provision in section 35 of the Burma Land and Revenue Act, 1876, that it shall not be levied in seven large towns which are specified in the Act or in others to which this provision may be extended. In these towns there is levied in lieu of the capitation tax a rate on land. This provision, it is understood, reflected the idea which obtained at the time of the passing of the Act that it would be very difficult to assess a capitation tax on the people of the towns. The difficulty was found to be less than was expected and the provision has only been extended to one town, though there is yet another town in which for historical reasons the capitation tax is not levied, while one in Upper Burma has never been subjected to the *thathameda*. It is obvious that the incidence of the land rate is very different from that of the capitation tax, and consequently the provision in question operates to some extent as an exemption in the case of certain classes of persons in those towns.

The sea passengers tax.

41. The latter of these provisions has a special bearing upon a further development of the scheme of personal taxation in Burma which has recently been much under discussion, namely, the sea passengers tax. The object of this tax is to make the scheme of capitation taxation complete by levying a tax of Rs. 5 upon every person entering Burma by sea, the special purpose being to secure taxation upon the class of migratory coolies who are apt to escape taxation when they move about from one village to another.

A scrutiny, however, of the Bill as passed by the Burma Legislative Council, seems to suggest that the law would effect much more than the closing of a gap in the existing system of taxation, and would really amount to the imposition of new taxation. For one thing it is to be applied to every person landing in Burma who is classed as an adult for purposes of a steamer passage,

and it will, therefore, affect both women and boys between the ages of 12 and 18 It may of course be possible to meet this difficulty by a system of refunds, but that would mean a considerable addition to the administrative difficulties of working the Act In the next place it is to be imposed on all persons at the rate of Rs 5, although apparently the labourer who is not accompanied by his wife pays only Rs 2 8 0 at present In other words, it will be a tax on the wife who has not left India or who may not exist In the next place, it will apply to persons going to work in the towns which are at present free of the capitation tax or *thathameda* It is understood that a considerable portion of the labour which goes over to Burma is employed in these towns and that this labour never becomes liable to the land rate Consequently, in this case, the tax will be a new one Again there is no provision for limitation of the charges in the case of an immigrant who visits Burma more than once in the same year, or for the exemption of a Burman who is returning to his own country Lastly as has just been stated, power has been given to the District Councils in Burma to make an end of the capitation tax or *thathameda* by introducing a tax on circumstances and property This will, presumably, be applicable to Indian labourers working in the local areas affected Should such a tax be imposed there will be double taxation to this extent It seems to the Committee that on all these grounds and particularly because it is incompatible with the development of the primitive system of poll tax into a scheme of local taxation and because it seems likely to operate as a tax on transport and to impose a real check on the flow of labour from province to province, the tax on sea passengers should be condemned as a development in the wrong direction

Apportioned Taxes

42 Poll taxes have generally been imposed by a superior power Apportioned taxes have more commonly arisen out of local combinations to meet common expenditure The chief of the taxes of this kind which still exist are those levied to pay for the services of the village police The ancient police system of India was strictly municipal and both in towns and country the *chowkidars* were appointed and paid by the people In 1870 the police service in the towns was provincialised under Lord

Watch and ward were originally paid for direct by the villagers

Mayo's scheme of financial devolution; but part of the cost of the town police was for many years afterwards borne by municipalities and cantonments. This policy was developed further by Lord Ripon, and in 1883 almost all the municipalities were relieved of expenditure on local police. The rural police, however, continued to be a local charge in most provinces for many years and the tax levied for the purpose was in many cases apportioned among the villagers.

Developments of the system.

43. It is difficult to give a clear account of these collections. In some cases, the tax is collected by the village police themselves, as in the case of the *baluta* in Bombay. In others, it is collected under the authority of the Government, but disbursed without being brought to Government account. In others again, it appears both as an item of receipt and as one of expenditure. In some provinces, the levy is mainly on the land. In others, it is mainly on the non-agriculturists, and in others again, it is on both. In some provinces cesses which were levied for this purpose have been abolished and in others they have not been. The following details will illustrate the way in which some of these developments have come about.

—in Madras.

In Madras, prior to 1893, the village police, like other village officers in ryotwari tracts, were remunerated partly from fees and other contributions payable by landholders, and partly from contributions from general revenues. The Act of 1893 abolished all these collections and imposed a money cess upon all holders of ryotwari and inam lands. The proceeds were paid into a fund to which the Government contributed an equal amount, and the village staff were paid from these funds. A later Act provided for a similar levy in the case of zamindari lands.

In 1906, Sir Edward Baker, the then Finance Member, laid down the policy that "no local cesses should be levied on land supplemental to the land revenue, except such cesses as are levied by or on behalf of local authorities for expenditure by them on genuinely local objects."* In pursuance of this policy, all the village cesses levied for provincial purposes in Madras were abolished and the village officers, including the police, have since that time been paid directly or indirectly by the Government, that is, either in cash or by the grant of lands which pay no rent or revenue, usually known as

* Government of India Financial Statement for 1906–07, page 12.

service inams One result of this change has been that the number of men employed for village watch and ward has lately been largely reduced, and there is evidence that the villagers are now commencing again to tax themselves for the purpose of employing their own watchmen

—in Bombay

In Bombay, the system is more or less similar to that in Madras The village watchmen in Guzerat and the Deccan are remunerated by grant of land or cash allowances and also by perquisites (*balutas*) paid by the villagers, which often amount to a considerable sum According to the figures given in Dr Harold Mann's "Land and Labour in a Deccan Village", in some villages the ryots pay *balutas* amounting in all to nearly 32 per cent of the assessment on the land The village police are remunerated on a similar system in Sind and Coorg

—in the United Provinces

In Agra no separate cess was levied for the village police, but an appropriation was made from a local cess, the amount appropriated being equal to the cost of maintaining the village and road police The cess was levied in permanently settled estates at the rate of As 2 on each acre, and elsewhere at 5 per cent upon the annual value of such estates (that is, 10 per cent of the land revenue) In Oudh in districts in which the Local Government had undertaken to maintain the rural police, a local rate of 2½ per cent and a rural police rate of 3 per cent were levied In pursuance of the recommendation of the Royal Commission on Decentralisation that the resources of local boards should be increased by making over to them the entire net proceeds of the land cess, the Government of the United Provinces decided in 1914 to discontinue the appropriation made in Agra from the local rates for the maintenance of rural police, and to provincialise the cost of rural police in Oudh As a result of the latter change, the 3 per cent rural police rate in Oudh was abolished and was replaced by an addition to the local rate of 2½ per cent, thus equalising the local rate in Oudh with that already prescribed for Agra The rural police are now paid from general revenues The result of the transfer of the charge to the provincial revenues in the United Provinces, as in Madras, has been a large reduction of the force owing to the inability of the Local Government to find funds to pay them at the enhanced rates that were found necessary in the case of a provincial staff.

—in the Punjab.

In the Punjab, the cost of the *chowkidari* establishment is recovered from the villagers under rules issued by the Government in 1876. The number of watchmen for each village is fixed by the Deputy Commissioner, who also determines the rate at which a tax on the annual value of houses shall be levied for their remuneration. The remuneration may be either in cash or in grain, and in cases in which it is payable wholly or partly in cash, it may be paid *at the option of the* majority of the village headmen from the proceeds of certain village taxes, of which the principal are known as *Choongee*, *Kamiana* and *Dhurrunt*. When the remuneration is paid wholly or partly in grain, the amount is often apportioned according to the number of ploughs or in such other way as the majority of headmen may determine.

—in the Central Provinces.

In the Central Provinces, the remuneration of *kotwals*, or village watchmen, is generally provided for by the assessment of a yearly rate, ordinarily not exceeding one anna in the rupee, on the rental valuation of land held by proprietors or tenants. In ryotwari villages, the Government contribute at least one-fourth of the remuneration, in the shape either of a revenue-free holding or of a rate on the revenue of the village, and the balance of the remuneration is realisable from the *patel* or headman and the ryots at a rate not exceeding one anna per rupee of the assessed revenue. In addition to this, in both malguzari and ryotwari villages, the non-agriculturists, when they form an important class, are also liable to assessment at a yearly rate fixed with reference to income. The *kotwal's* remuneration is paid direct by the assessee.

—in Berar.

In Berar, the duties of watch and ward of the village are performed as a rule by village *mahars* assisted in some cases by a special watchman known as a *jaglia*, and to provide for their remuneration a cess at fixed rates is levied under sections 159 and 160 of the Berar Land Revenue Code. Agriculturists are assessed under section 159 of the Code at a rate not exceeding 12 pies in the rupee of land revenue in the Melghat taluk of the Amraoti district and 27 pies in other parts of Berar. Non-agriculturists are assessed under section 160 of the Code at a yearly rate fixed with reference to income.

—in Bengal, Bihar and Orissa and Assam.

In Bengal, Bihar and Orissa and portions of Assam, the levy of the *chowkidari* tax is regulated by the Bengal

Village Chowkidari Act of 1870 The village *chowkidar* is paid from the assessment of resumed *chakaran* lands and the proceeds of a tax imposed by a panchayat in each village The total of these two must be equivalent to the amount required for the pay and equipment of the *chowkidars*, together with 10 per cent above such amount to cover the cost of collection and losses due to non realisation The tax is levied on all owners and occupiers of houses in the village, the amount being determined with reference to the taxable capacity of individual families as estimated roughly by the panchayat The maximum amount levied from any individual is Rs 12 per annum and persons who are too poor to pay half an anna a month are exempted One of the members of the panchayat collects the tax retaining 10 per cent of the proceeds to repay the cost of collection There is no right of appeal against the assessment of the panchayat, but the District Magistrate has a general power to revise the assessments in any village The assessment lists are, as a matter of fact frequently examined by Subdivisional Officers

In Chota Nagpur, the levy of the tax is governed by the Chota Nagpur Rural Police Act of 1914, which corresponds to the Bengal Chowkidari Act the only difference being that, in Chota Nagpur, the tax is assessed by the Deputy Commissioner and not by a panchayat

In Burma, there is no tax at present levied corresponding to the *chowkidari* tax in India though the Burma Towns and Rural Police Act, 1880, gives power for the levy of a cess, which can be applied among other purposes to the payment for the rural police — in Burma.

44 The figures available of the revenue derived from the levy of *chowkidari* tax are as follows — The sums now levied

	Rupees in lakhs
Bengal	65 6
Bihar and Orissa	40 5
Assam	4 5
Berar	11 1

The Governments of the Punjab and the Central Provinces are unable to furnish the Committee with any estimate without a special enquiry

45 The question of the abolition of the *chowkidari* tax has been considered by the Government of India more than once As has already been pointed out, the towns Reasons why these taxes have been continued

have been almost entirely relieved of the charges for the maintenance of the police, and theoretically it is difficult to justify the continuance of an apportioned tax for the maintenance of the police in villages. The main justification for the existence of the tax is the historical fact that, from time immemorial, the village police have been paid out of village funds. Moreover, it will be clear from the description that has been given above that, even where no tax is levied on Government account, they are still paid in many instances by the villagers out of funds collected in cash or kind by themselves.

The reasons that have hitherto prevented the abolition of the tax where it still exists are mainly administrative and financial. In the first place, if the charge were provincialised, it would be difficult to resist the claim of village *chowkidars* for higher emoluments corresponding to those of the constabulary. In the second place, the main justification for the existence of a panchayat in Bengal and the other provinces where the tax is apportioned is the assessment and collection of the *chowkidari* tax. Provincialisation of the village police would, therefore, have a serious effect on the corporate existence of the panchayat, which has been a useful means of educating the people in local self-government.

The present line of development.

46. These considerations are no doubt partly responsible for another line of development in the permanently-settled provinces, namely, to continue the *chowkidari* tax, but to make it also the basis of a personal tax for local purposes. Both in Bengal and Bihar and Orissa, the system has recently been revised in connection with the Village Administration Acts, which provide for the formation of groups of villages into union panchayats charged with duties relating to local sanitation and the decision of simple civil and criminal cases. In these areas, power has been given to the union itself to raise the *chowkidari* tax in excess of the limit provided by the Chowkidari Act, and the upper limit of the tax has been raised from Re. 1 to Rs. 4 a month. Proposals for the conversion of the *chowkidari* tax into a local tax for general purposes are also under the consideration of the Assam Government. A development on somewhat similar lines is also taking place in the Punjab. Under section 35 of the Punjab Village Panchayat Act, 1922, the panchayat may levy for local purposes a village rate (*haisiyat*) which should be a

multiple or fraction of the amount payable in respect of the *chowkidari* tax These developments may be compared with those that are in progress in the case of the *thatha meda* and the capitation tax in Burma

47 It may be added in conclusion that, as in the case of the *thathameda,* there is considerable complaint in places of the method of assessment of these taxes by the panchayatdars, and especially of a failure to apportion the levy to the ability of particular villagers to pay It is to be hoped that in both cases the conversion of the taxes into items of local taxation to be spent for the benefit of the locality will remove some of the unpopularity which at present attaches to them But it seems desirable to point out that, even as local taxes some measure of control over their administration appears to be required if they are not to press too heavily upon the poorest classes

Even if they are converted into a local tax, the administration of these levies needs to be under control

48 To sum up—

Summary

Poll taxes are far more common than is sometimes supposed, especially under primitive conditions

in the case of the fugitive cultivator there is no alternative,

the *thathameda* is theoretically little open to objection, the capitation tax is more so, the sea passengers tax is open to many objections,

the rejection of the last is recommended The conversion of the first two into circumstances and property taxes may be expedited Even so their administration needs control,

the endeavours made to replace the arrangements under which the villagers taxed themselves for watch and ward have led to confusion and inequality,

the taxes still levied in certain provinces for this purpose are theoretically unobjectionable, but are complained of in practice,

the conversion of these also into a source of local taxation, subject to proper control, is recommended as a desirable development

CHAPTER IV—THE LAND REVENUE.

PART I.—REVENUE FROM LAND USED FOR AGRICULTURAL PURPOSES.

The Committee's instructions.

49. One item of revenue which has excited more interest and criticism than all the others put together is that derived from the land. In respect of this matter, the Committee's instructions differ in some respects from those relating to other parts of the system. They are to include in the enquiry consideration of the land revenue only so far as is necessary for a comprehensive survey of existing conditions. They are not required to make suggestions regarding systems of settlement. But it is within the scope of their enquiry to study the incidence of the land revenue (including water-rates) and to point out any defects from the point of view of the canons of taxation or any difficulties in readjustment of the burden of taxation. In subsequent correspondence it has been added that if, as a result of their examination of the question in the light of the above considerations, the Committee come to the conclusion that there are defects which can be cured without radical changes in any system or systems, they are to point out the defects and leave it to the Governments concerned to find and apply the cure. If, on the other hand, they find so great a divergence in the systems or any of them from the accepted canons of taxation that a complete change of system is necessary, it is open to them to suggest in broad outline the general lines of revision which commend themselves to them.

Arrangements in other countries.

50. It is proposed in the first place to make a brief survey of the systems of land taxation in other countries so as to indicate the points of similarity between them and the Indian systems, and to bring out by contrast the more distinctive features of the latter. The income of the State from land in most countries is derived from two main sources—(1) State domains, (2) taxation of property in or income derived from land.

(1) State domains.

In the earlier Middle Ages the royal domain was in most European countries the main basis of public income, but owing to the extravagance of kings, which

often took the shape of generous gifts to court favourites, to the growth of new ideas, to changes in the systems of government, and to various other causes, the State revenue from this source has dwindled in most cases to a comparatively insignificant figure In the case of the local revenues, however, public lands continue, particularly in France and Germany, to be a very important source of income The French *communes* hold several million acres of forest and other lands,* while there are very few towns in Germany which do not own a considerable proportion of the land within their administrative areas In fact, possession of land is a common feature of communal life generally in the German States, and there are some cases in which the yield of public forests and other lands is so large that it is unnecessary to resort to taxation for local purposes †

(2) Taxation of land

The land tax is one of the oldest taxes, and there is hardly any country in the world that does not levy it in some form or other The methods adopted, however, vary considerably

Thus, it may be based on (a) the capital value, which is usually determined periodically with reference to the sale value, (b) the unimproved or public value, i e , such part of the capital value as is not due to the efforts or investment of the owners or occupiers, (c) the net produce i e , the gross produce less the cost of production, (d) the annual value, i e , the gross produce less the cost of production and earnings of management, or (e) the net income of the farmer, i e , the earnings of management *plus* the value of the labour of the farmer and his family

The following short description of some of the typical systems will illustrate the ways in which these different bases are used —

France ‡

The land tax in France was until 1914 an apportioned tax assessed on the net produce of the land, i e , the income which the owner secured after deducting from the gross produce the cost of cultivation, sowing, harvesting and maintenance of himself and family It was based originally on a cadastral survey begun in 1807

[illegible] V [illegible] Dumesnil,
No [illegible]—Chambre Des Deputés [illegible] page 15

and completed in 1850. The survey, however, became completely out of date, and the whole system of land taxation was reformed between the years 1907 and 1914. Under the scheme then drawn up, the tax was converted into a uniform rated tax assessed on annual value, and the rate was fixed in 1914 at 4 per cent on the annual value. It was raised to 5 per cent from the 31st July 1917, and to 10 per cent from the 25th June 1920. For purposes of assessment, lands are grouped into 13 classes according to use to which they are put. Lands in the agricultural class are subdivided into further classes not exceeding five with reference to the fertility of the soil, the value of the produce and the topographical situation. The classification is made by the Controller of Direct Taxes assisted by the Mayor and five classifiers appointed by the Prefect. In determining the class, the most important factor taken into consideration by the Controller is the actual rent paid for the piece of land or for similar land in the vicinity. The basis of assessment is thus the rent which is actually paid to the landlord, or in cases in which the cultivator is himself the owner, the competitive rent for similar land in the locality. Incomes derived from land are also liable to the general income-tax.

Italy.* The return from land in Italy is subject in the first place to two schedular taxes—

(1) A tax at a flat rate of 10 per cent of the economic rent assessed according to a system of cadastres, which have been periodically revised since 1886.

(2) A tax at 18 per cent on the income of the cultivating farmer.

If land is let to a farmer, the proprietor pays the first of these taxes and the farmer pays the second, which is a tax common to all kinds of industrial and commercial enterprises, and is assessed on the basis of declarations by a commission appointed for each district. Incomes of less than 436 lire (£4), which is raised in some cases to 800 (£7), are exempt.

In addition, both landlord and tenant are liable to the State income-tax, which applies to the aggregate income received by the tax-payer, his wife and his sons of less than 21 years of age, but is assessed on the net income after deducting from the total of these separate incomes all the other taxes paid, national and local, insurance

* The Committee are much obliged to Dr. Per Jacobsson of the Economic and Finance Secretariat of the League of Nations, Geneva, for information on the land revenue systems of Italy, Hungary, Austria and other European countries.

premia, interest on debts and a sum of one-twentieth of the net income for each dependent person The rate varies from 1 to 10 per cent on incomes of over one million lire.

In addition to this, again, there may be levied for local purposes a local surcharge both on the schedular taxes and on the income-tax This surcharge is limited to 150 per cent of the first schedular tax, that is, to 15 per cent of the economic rent

The land tax in Hungary is based on an obsolete survey The nominal rate is 25 per cent of the cadastral yield, but Professor Bela Foldes has estimated the present incidence of the tax at from 8 to 12 per cent In addition to this, there are— **Hungary.**

(1) A general income-tax, which applies to agricultural profits, varying from 1 per cent to 40 per cent with the size of the income, the latter rate being applicable to those in excess of 200,000 gold crowns

(2) A capital tax, the rate of which varies from 1 to 20 per cent of the net revenue on the capital

(3) Certain local surcharges, the rates of which vary in different places

The combined burden of all these taxes varies from 15 per cent to 60 per cent of the net annual yield of the land The actual burden depends on the accuracy of the assessments made by the authorities

As in Hungary, the land tax in Austria is based on an old survey In 1913 the nominal rate was 26⅔ per cent of the net cadastral yield, which was equivalent to about 10 to 15 per cent of the real yield In addition, there were levied local surcharges which amounted in many cases to more than the State tax. Since the War, the tax has become entirely a local levy It was stipulated in the Reconstruction Law that the local authorities should raise the rate to at least 75 per cent of the gold value of the tax paid in 1913, but, as a *matter of fact, they have* exceeded this minimum, and the tax now amounts to 100 to 150 per cent of it **Austria**

In addition to the local land tax, an income-tax varying from 1 to 42 per cent and a capital tax of from 1 to 6 per cent are levied by the Central Government The combined rate of taxation in the case of the largest estates approaches 70 per cent of the return, while a

landowner enjoying an income of about £400 pays 25 to 30 per cent if the assessment is made accurately.

Czecho-Slovakia. In Czecho-Slovakia, the old Austrian system is still in force. The land tax is a State tax and local bodies are entitled to levy surcharges, which are often very heavy. Agricultural profits are also subject to the income-tax and capital tax.

Bulgaria. Up to the year 1921, the Bulgarian land tax was based on annual value as arrived at with the aid of a cadastre. This tax was abolished in 1921 and an income-tax introduced. The system, however, broke down completely, since the peasants did not declare any income and the whole burden thus fell upon the towns. After a change of Government in 1923, the old land tax was reintroduced.

Prussia. Under the scheme of fiscal reform introduced in 1893, the land tax and the building tax in Prussia were assigned to local authorities, the Central Government merely supervising and paying for assessment. The tax was levied on the annual value of agricultural land and was assessed by committees presided over by a Government Commissioner paid for by the State. The cadastre was also maintained at the cost of the Central Government. Since 1923, however, a State tax has been assessed on the capital value of land and buildings, which in the case of agricultural property includes value of live-stock and machinery. The rate in the case of such property varies from .1 to .25 per mille per month. The tax is assessed by special committees and collected by local bodies, which are also authorised to impose surtaxes approximating to nearly 200 per cent of the State tax. Landowners are further subject to a federal income-tax, the rates varying from 10 to 60 per cent according to the income. The minimum rate of total taxation falling on land has been calculated to be 28 per cent.

Sweden. In Sweden, the land taxes were abolished during the last quarter of the last century and a progressive income-tax at rates varying from 5 to 22 per cent has become the main tax of the country. In the case of incomes from agriculture, the machinery for the levy of this is supplemented by a quinquennial valuation of all taxable land, and it is open to the landowner or farmer to declare his income or to be assessed on an income which is assumed to be 6 per cent of the valuation in the register in each case, and 12 per cent in the case of the owner farming his own land. Proposals have

recently been made to add to this income-tax a tax on the capital value of land. The rates of local taxation, which is levied on the same basis, vary from 4 to 16 per cent, the average being 9 per cent.*

England.† The English land tax in its present form dates from the year 1692 and was originally both a property and an income-tax, assessed at 4 shillings in the pound on the annual value of all land and houses, on personalty of every kind, on the stipends of public officials and on movable property. Owing to the difficulties of annual assessment it was converted into an apportioned tax in 1697, but it continued to be voted annually until 1798, when it was converted by Pitt into a perpetual redeemable rent charge. The portion of the tax assessed on personal property had declined at a very early period and had long fallen out of assessment before it was formally repealed in 1833. The unredeemed portion of the tax has thus become a tax charged on landed property, subject to which it may be bought and sold. In addition to the land tax, an income tax on agricultural profits is imposed as in other countries. The farmer's profits are assumed to be a multiple of the annual value of the land unless accounts are produced showing them to be less. The multiple has varied in recent years from twice the annual value to one half. Land is, of course, also subject to a heavy local rate, which is the chief source of tax revenue for local purposes in rural areas.

Australia and New Zealand. In these British colonies, the assessment is based on the unimproved value of the land, in other words on "that part of the annual, or of the capital, value of real property which is not due to the efforts or investments of owners or occupiers".‡ In most of the Australian States, the tax is levied only on the excess over a specified minimum, which, however, is not deducted in the case of absentee landlords. The latter are in some States subject to further special taxation.

In New Zealand, small farmers whose holdings are worth less than £500 are similarly exempted, but there is a graduated tax on the larger estates varying from one-sixteenth of a penny to threepence in the pound according to the value of the estate.

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* The facts are taken from the Report of the Committee of Enquiry on Taxation of Incomes derived from Farming Operations in South Africa, 1919.
† Armitage Smith. Principles and Methods of Taxation, Chapter IV.
‡ Pigou. Economics of Welfare, Part IV, Chapter IV, page 609.

In determining the unimproved value of land, improvements are valued only to the extent to which they increase the selling value; and increased value due to improvements made by the owner is excluded. A landholder who is dissatisfied with the valuation has the right of calling upon the State to purchase his estate at its own valuation. A recent Commission has recommended the abolition of graduation.

Both in Australia and New Zealand the income-tax is levied in addition to the land tax.*

China. The land tax in China is apportioned by the Central Government among provincial authorities, who redistribute it among the districts. For purposes of assessment land is divided into three classes, each of which is subdivided into three grades according to the fertility of the soil, and the tax assessed consists of two parts, one payable in money and the other in produce. There is, however, no cadastral record, nor even a list of the persons who are liable to the tax. It is stated that large tracts of land escape taxation in consequence.†

Japan. In Japan, before 1871, the land tax, which then constituted nine-tenths of the feudal revenues, had been assessed by various methods by the different feudatories. A careful assessment of the capital value was completed in 1889, and the land tax was fixed at 3 per cent of the capital value of the land, or 50 per cent of the annual return, which was estimated at 6 per cent. The rate has been frequently varied since in accordance with the financial requirements of the State, and is now 2½ per cent on residential land, 4½ per cent on cultivated land, and 5½ per cent on other lands. These percentages, however, do not represent the actual burden, for the cadastre is quite out of date. According to the Japan Year Book for 1925, the market price of paddy land is estimated by the banks at nineteen times the official valuation on which the land tax is assessed. In addition to the land tax an income-tax is levied on agricultural incomes, assessed on the net profits during the preceding three years.‡

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* Pigou : Economics of Welfare. Part IV, Chapter IV.
Report of the Committee of Enquiry on Taxation of Incomes derived from Farming Operations in South Africa, 1919.

† Han Liang Huang : Land Tax in China.

‡ Japan Year Book, 1924–1925.
Financial and Economic Annual of Japan, 1924.
Article on 'Japan' in the Encyclopædia Britannica.

51. From this survey of the systems of land taxation in other countries, it will be observed that the taxation imposed generally combines the following features :—

Summary of the chief features of the land taxes of other countries.

(a) A flat rate on capital or annual value.

(b) A progressive tax on income, which includes the income derived from the land.

(c) In most cases a death duty or other capital tax; in some cases both.

(d) A local rate.

The tendencies of modern development would appear to be as follows :—

(1) The flat rate is kept comparatively low. In France the land tax proper amounts to about 10 per cent of the annual value. In Italy the schedular land tax amounts to 10 per cent of the economic rent. In Hungary it is 8 to 12 per cent of the cadastral yield. In Japan it is roughly one-fourth of one per cent of the capital value.

(2) The income from, and property in, land is treated for purposes of income-tax and death duty on exactly the same footing as other incomes and property.

(3) Where an increasing share has been taken of the return from land, it has generally been taken for local purposes. In Austria, the land tax has recently become entirely a local tax. In Prussia, the land tax proper was levied solely for local purposes from 1893 to 1923. Even under the law of 1923, the tax on land for local purposes is twice the tax levied for State purposes. In Italy, the local surtaxes on land often amount to 15 per cent of the economic rent. In England, the main tax on land is the local rate.

As a consequence, incomes from, and property in, land tend generally to bear a heavier burden than incomes derived solely from trade or movable property, since the latter are not liable either to the proportional land tax or to the local rates.

These tendencies reflect to some extent the changes in the theory of taxation during the last fifty years. The principles underlying them may be stated in the words of Professor Seligman : "The relation of the individual to the

local community is somewhat different from his relation to the State at large. The town is to a certain extent an association of business interests. While therefore the obligation of the citizen to contribute to the general burdens should be regulated by the principle of faculty or ability, it is eminently proper that, in the case of the local bodies, *more attention should be paid to the principle of benefits.* . . . An argument of somewhat the same nature . . . led to the demand for the real estate tax as one of the chief *sources of local revenue. A tax on real estate is a real* tax, a tax on product; it is not a personal tax. Moreover, the real estate tax is an especially good local tax, partly because the benefits of local expenditure accrue primarily to real estate and thus increase the faculty of the owner; partly because making it a local tax would at once remove from the public arena the unseemly disputes about inequality of rates and about equalisation, with which the public is scarcely less familiar abroad than in America."*

The Indian † systems.

52. Many of the complexities of the question of land revenue in India can be traced to the facts that the Indian systems are the result of a gradual process of evolution from indigenous practices, and that they have been moulded into their present shape by British officers quite independently of one another to suit local circumstances in different provinces. It is impossible to bring them under any general description. In fact, many of the controversies to which the question has given rise have, as Sir Mountstuart Elphinstone remarked, been occasioned "by applying to all parts of the country, facts which are only true of particular tracts; and by including, in conclusions drawn from one sort of tenure, other

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* Seligman : *Essays in Taxation*, page 478.

† The history of the Indian systems is based on the following authorities :—

(1) The Ain-i-Akbari.

(2) Fifth Report on East Indian Affairs, 1812.

(3) Field: Landholding and the Relation of Landlord and Tenant. Second Edition, 1885.

(4) Baden Powell : Systems of Land Tenure in India, Volume I.

(5) Article on 'India' in the Encyclopædia Britannica.

(6) Article in the Imperial Gazetteer on "Land Revenue".

(7) Report on the Land Revenue system of Burma, 1921.

(8) The Bombay Survey and Settlement Manual, 1917, Volume I, Historical.

(9) Moreland : India in the time of Akbar.

(10) Do. Akbar to Aurangzeb.

tenures totally dissimilar in their nature "* At one extreme there is the big zamindar paying a tribute, which in some cases is only a nominal one, and at the other the cultivator of an uneconomic holding, paying a substantial portion of his income from land in the shape of land revenue In some parts the assessment is unalterable, while in others it is subject to periodical revision In Bengal and some of the other zamindari tracts, there are numerous intermediaries for instance the zamindar the *patnidar* the *dirpatnidar* the *sepatnidar* and others between the Government and the cultivator, while in the ryotwari areas of Bombay and Madras, the cultivator in many cases deals direct with the Government In these circumstances the first step towards the adequate discussion of the problems arising in connection with the land revenue in India is to examine some aspects of the history of the different systems

53 According to the description given by Manu of the fiscal administration of an ancient Hindu State the main source of the State revenue was a share of the gross produce of all land, varying according to the soil and the labour necessary to cultivate it In normal times the share varied between one twelfth and one sixth but was liable to rise even to one fourth in times of war or other public calamity The revenue was collected, not from individual cultivators, but from the community represented by the headman The aggregate harvest was collected into a common heap and the share of the State was set aside by the headman before the general distribution † Between the village headmen and the King was a chain of civil officers consisting of lords of single villages lords of 10 villages lords of 100 villages and lords of 1 000 villages These were responsible for the collection of the revenue, for which they were remunerated by fees in kind by a portion of the King's share of the produce, or by holding land revenue free in virtue of their office In ancient India

In the earlier days of the Muhammadan administration, the State share of the gross produce demanded by the Hindu kings was converted into the *khiraj* or tribute payable on land in countries under Muhammadan rule, though the share taken was greater than before The

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* Mountstuart Elphinstone The History of India, 1857, Book II, Chapter II page 73

† Article on ' India in the Encyclopaedia Britannica

existing agency of collection was also utilised. The rapid expansion of some of the Muhammadan kingdoms, however, made the collection of the revenue under this system a difficult process, and measures were adopted for regulating the collections and securing a complete or partial commutation of the State's share of the produce into money. The Institutes of Timur embodied the first systematic attempt in this direction. Sher Shah (1540-55) made the next, but did not reign long enough to give general effect to his measures. The third and the most famous settlement was that of Todar Mal during the reign of Akbar. He had the land measured carefully and then divided into four classes according to the fertility of the soil. The Government share, which was fixed at one-third of the gross produce, was commuted into money with reference to the prices of the previous 19 years. The commutation rate was originally applied to the actual produce of the year, but this practice was found to be administratively inconvenient. Settlements were therefore concluded on the basis of a ten years average. The system involved the maintenance of an elaborate set of accounts and the employment of a host of tax-gatherers, who intervened between the cultivator and the Supreme Government. One of these was the zamindar, who was unknown in his present signification to the early Hindu system. Originally he was merely a tax-collector, or farmer of the revenue, who agreed to contribute a lump sum from the portion of the country allotted to him. Todar Mal's settlement continued in force without material alteration for nearly a century, but as the authority of the Central Government declined, a number of imposts (known as *abwabs*) were added by the provincial rulers. Sir John Shore calculated that the *abwabs* imposed by Jaffer Khan, Shujauddin and Alwardi Khan amounted to about 33 per cent upon the *tumar* or standard assessment in 1658, and the impositions of the zamindars upon the ryots to more than 50 per cent of the same.*

Under the Company.

54. Such was the state of the land revenue administration when the East India Company came into possession of Bengal, Bihar and Orissa. They at first attempted to administer the revenues through supervisors, whose main functions were to determine the limits of estates

* Minute of Sir John Shore, 18th June 1789, paragraph 41, Fifth Report on East Indian Affairs, 1812, Volume II, page 11

held by zamindars and the rent which the actual cultivators ought to pay to them. The object of this measure was to protect the cultivators from the exactions of the zamindars by the grant of *pattas* or leases, specifying the exact amount to be paid by them as rent. The attempt, however, failed, and the Company decided to undertake a more direct measure of control. The revenues were farmed out for five years, and Collectors, with whom were associated Indian Diwans, were appointed to receive them. The older zamindars were not, however, replaced by other farmers except in cases where they refused to contract for the sums demanded. Owing to a variety of circumstances this system also was unsuccessful, and ultimately the Collectors were abolished and Indian local Collectors were introduced under the supervision of six Provincial Committees. When the five years for which the revenues had been farmed out were about to expire, Warren Hastings appointed a commission of three officers to collect information with a view to reforming the system. As a result, the six Provincial Committees were abolished and a Metropolitan Committee of Revenue was constituted in their place. Meanwhile, in 1786, Lord Cornwallis had arrived in India with definite instructions to give effect to the Act of Parliament passed in 1784, under which an enquiry was to be conducted as to the real jurisdiction, rights and privileges of zamindars, talukdars and jaghirdars under the Mogul and the Hindu Governments that preceded the East India Company, and the amounts which they were bound to pay. The grievances of those who had been dispossessed in the course of the tentative and experimental arrangements were also to be redressed, and the revenue was to be based on a review of the actual collections of previous years. Lord Cornwallis caused elaborate enquiries to be made, and rules were issued between 1788 and 1790 for a decennial settlement. He recommended, however, that instead of this a permanent settlement should be introduced, and in 1793 his suggestion was acted upon and steps were taken for a permanent settlement under a regulation which was issued in the same year.

55. The main features of this permanent settlement of 1793 were briefly these— The permanent settlement.

(1) The settlement was made with the zamindars, who were declared proprietors of the areas over which their revenue collection extended

so that they might have some legal status which would enable them to fulfil their obligations to the Government and induce them to take an interest in their estates. This right was, however, subject to the payment of land revenue and to liability to have the estates sold for failure of payment. The Government also reserved the right to introduce any measures they might think necessary '*for the protection and welfare of the dependent talukdars, ryots and other cultivators of the soil*'.*

(2) The assessment fixed on the land was declared to be unalterable for ever and the Government specifically undertook not to make any demand upon the zamindars or their heirs or successors "for augmentation of the public assessment in consequence of the improvement of their respective estates".* But the *Government reserved the right to reimpose* the *sair* duties which had been abolished in 1790 or any other internal duties, and the zamindars were not to be entitled to any share of the revenues so collected.

(3) The assessment was fixed approximately at ten-elevenths of what the zamindars received in rent from the ryots, the remaining one-eleventh being left as the return for their trouble and responsibility.

It will be observed that the revenue collected from the zamindars was a very high percentage of the rental. As a consequence, for several years after the settlement, there was widespread default in payment, and since the law enforced the sale of the estates directly the zamindars fell into arrears, large numbers of estates were put up for sale. It was only as the effects of British security made themselves felt and as the value of land and its produce rose, and waste lands, which had not been assessed to revenue, were brought under the plough, that the assessment became proportionately light. At the same time it has tended to become more and more unequal as time went on, since it is obvious that the increment in

* Bengal Permanent Settlement Regulation I of 1793.

value in an estate which was largely undeveloped at the time of the settlement may be many times that which accrues in one which was fully developed when the settlement was made

56 The prevailing system throughout the Bombay Presidency and the greater portion of the Madras Presidency is what is usually known as the ryotwari system When the British succeeded to the territories of the Nawab of the Carnatic in the beginning of the 19th century, there was considerable diversity of opinion as to the system on which the land revenue of the province should be assessed The Court of Directors, influenced largely by the punctuality of the payment of the revenue, which was perhaps the only redeeming feature of the permanent settlement directed the Madras Government to enter into permanent engagements with zamindars and where no such intermediaries existed, to create substitutes out of enterprising contractors The efforts of the Madras Government to comply with these orders resulted in a disastrous failure in almost every case except in the extreme north and south of the Presidency where the zamindars happened to be descendants or representatives of ancient lines of powerful chiefs The system of ryotwari settlement was, therefore, after considerable discussion introduced by Sir Thomas Munro The distinguishing feature of this system is that the settlement is made with the cultivating proprietor year by year and that he is at liberty to relinquish part of his holding or, subject to certain conditions to add to it by taking up waste lands as opportunity arises The ryotwari systems Madras and Bombay

In Bombay, when the British came into possession of the territories under the Peshwas the system of farming the revenues was in force The office of mamlatdar, who was the collector of revenue, was put up to auction among the Peshwa's attendants, who were encouraged, and very often compelled, to bid large sums The mamlatdar in his turn let his district out at an enhanced rate to under-farmers, who repeated this operation till it reached the *patels* The system resulted in great oppression, and, as Elphinstone points out, "a man's means of payment, not the land he occupied, were the scale on which he was assessed" * When the administration passed into the hands of the British, farming was abolished, the revenue

* Quoted in the Bombay Survey and Settlement Manual Volume I page 18

was levied according to the actual cultivation, and the assessments were made lighter. Ultimately the ryotwari system, which had meanwhile been introduced in Madras, was adopted.

The United Provinces and the Punjab.

57. The North-Western Provinces, which came under British rule somewhat later, presented a different problem. In Oudh, which was the centre of the old Aryan dominion, there were many petty Rajahs who had been allowed to contract for a sum of revenue and given the name of talukdars. Elsewhere there were a few Rajahs who had become revenue zamindars, but their number was comparatively small. In the rest of the Province, there were found bodies of villagers, claiming descent from chiefs or other notables who had founded particular villages or obtained them on grant, and who laid claim to the whole village area, including the house-sites. The British Government recognised the landlord rights of these bodies and made them jointly and severally liable for the revenue to be paid. In the Punjab, the same system of village or *mahal* settlement was adopted, but on a slightly different plan. All these settlements were made liable to periodical revision except in the cases of certain estates in the United Provinces, which had already been brought under the permanent settlement.

The Central Provinces.

58. In the Central Provinces, the villages represented aggregates of cultivators, each claiming his own holding and nothing more. Under the Mahrattas the revenues of the villages had been farmed out to individuals called *patels* or *malguzars*. These men had in course of time acquired a quasi-proprietary position. When the British came into possession of the territory they were made proprietors and became responsible for the payment of the revenue. The *malguzari* settlement is also liable to periodical revision.

Burma.

59. In Burma there was no land tax before the British conquest. In most places in Lower Burma, however, the cultivators paid a tax which varied according to the number of ploughs they used, and the rate was often different according as they cultivated garden, rice, or dry land. The assessment was supposed to represent one-tenth of the value of the gross produce. After the British annexation the area per plough was standardised, and the tax became one on the land rather than on the cultivator. The earliest rates were supposed to represent one-fifth of the value of the gross produce, and the

assessment usually fluctuated with the area under cultivation In 1879 the Government decided that the assessment should represent a portion of the net produce This was the position when Upper Burma was annexed in 1886. At the time of the annexation of this province rent was paid to the State for the lands which were recognised as Crown lands, but on private lands nothing in the shape of rent or tax was levied, the only general tax being the *thathameda* Since 1893 the rent in Upper Burma also has been based on the net produce, and a land tax on private lands has been partially substituted for the *thathameda* The present system in Burma is very similar to that of Madras

60 When the settlement with the zamindars of Bengal was made permanent, it was the intention of the Court of Directors that the interests of the tenants, who had been deprived by the Permanent Settlement Regulation of such proprietary rights as they had before enjoyed, should be safeguarded The Regulation of 1793, however, did not define clearly the rights of the tenant, and *so far from conferring any security of tenure upon him*, the subsequent Regulations of 1799 and 1812 placed the tenant practically at the mercy of the landlord His property was rendered liable to distraint and his person to imprisonment if he failed to pay his rent, however extortionate it might be It was only in 1859 that a law was enacted restricting the landlord's powers of enhancement in certain cases Later, under the Bengal Tenancy Act of 1885, which has served as a basis for tenancy legislation throughout India, certain privileged classes of tenants were created Tenancy legislation

In the areas where tenancy legislation is now in force two main classes of tenants, namely, occupancy and non occupancy ryots, are legally recognised The qualifications for occupancy rights vary with the different provinces In Bengal and Agra every person who has been continuously holding as a ryot for a period of 12 years land situated in a village acquires the right of occupancy in that village Under the Oudh Act of 1886 such rights were originally recognised only in the case of tenants who had had proprietary rights and lost them, but the privilege has since been extended to ex-proprietors whose proprietary rights have been transferred by

sale or execution. In the Punjab, no tenant acquires the right of occupancy by mere lapse of time and the privilege is restricted to tenants whose claims are based on certain historical grounds. In the Central Provinces, the 12-year rule was at first in force, to be superseded by one which allowed purchase of occupancy rights at two and a half times the annual rental. That gave way in 1920 to two classes of occupancy tenants, both of whom have transferable rights subject to certain conditions. In the zamindari estates in Madras, every ryot who was in possession of ryoti land when the Estates Land Act of 1908 was passed, and every ryot, who is admitted by the landlord to the possession of land, has a permanent right of occupancy. There is no corresponding law, however, applicable to tenants under ryotwari holders either in Madras or in any of the provinces where the ryotwari system is in force.

Another feature of the tenancy legislation is the restriction placed on the enhancement of rent by landlords. In the case of occupancy tenants, the rent can generally be enhanced only by agreement or by suit. In Bengal such agreements are required by law to be in writing, and the enhancement cannot be made oftener than once in 15 years, and is also subject to a maximum of 2 annas in the rupee. An enhancement by suit can be decreed by the Court on grounds of lightness of the rent as compared with lands in the neighbourhood, rise in prices of staple food crops or increase in the productivity of the land due to improvements of the proprietor or to fluvial action. The tenant has the right of suing for a reduction of rent on the ground of permanent deterioration of the soil, or of a permanent fall in the local prices of food crops. There are similar restrictions in force in the other provinces, and in the Central Provinces the rent is fixed by the settlement officer in the case of what are known as absolute occupancy tenants for the term of the settlement and in that of occupancy tenants subject to enhancement every ten years. Even in the case of non-occupancy tenants, under most of the Tenancy Acts, the rents cannot be enhanced except under agreements, which in some provinces are required to be registered.

Sub-proprietary rights.

61. In addition to the rights of ordinary occupancy tenants, there are what may be described as sub-proprietary rights, particularly in Bengal. The *patni* tenures

in this province are a development of the 19th century, the first Regulation dealing with them being that of 1819 When a landlord found that his estate was too large and unwieldy, or when he desired to share with others the responsibility for the payment of the land revenue which in some cases was very high he created a *patni* in other words gave, in return for a fixed annual payment representing roughly the rental value of the tract a permanent managing lease for part of the estate The *patnidar* in his turn frequently divested himself of the trouble of direct management by creating tenants of another class the *dirpatnidar*, and this process has often been repeated by the creation of a *sepatnidar* and even further The Regulation of 1819 declared the validity of these tenures and made them transferable and answerable for debt In the case of arrears the tenure can be brought to sale The Regulation also enables the zamindar to demand a fee on the alienation of the *patni* right and collateral security for half the *jama*

62 The circumstances which led to the creation of the land revenue systems and the systems of tenure on which their working depends have now been described The Committee are not concerned with the details of the systems themselves, but it seems to them essential before proceeding to examine the later developments and the application to the systems of the canons of taxation to have an understanding of the main principles upon which they are based They propose therefore in the following paragraphs to give a brief description of the systems of temporary settlement embodying in it the chief historical factors of importance Principles of settlement

63 Before examining the more elaborate systems of the major provinces it may be appropriate to mention briefly the system in British Baluchistan where the traditional practice of sharing the produce still continues The produce of the land is assigned to different factors—(1) land (2) water (3) seed (4) plough oxen, (5) labour, (6) State dues One sixth of the gross produce is usually taken as the revenue, but in some cases the State share amounts to two ninths or even one third In the case of land irrigated from a Government source, the share due to water (i e, another one sixth) is added on to the revenue British Baluchistan

Madras.

64. The principles of the land revenue settlement in the Madras Presidency have not been embodied in any statute, and the settlements are made under executive instructions. The Madras settlements are preceded by an accurate survey of each village, which is carried out by a separate survey staff which furnishes the settlement officer with a village map accompanied by a descriptive register of all holdings. The settlement officer then "divides the soils into certain classes with reference to their mechanical composition, subdivides them into sorts or grades with reference to their chemical and physical properties and other circumstances affecting their fertility, and attaches a separate grain value to each grade after numerous examinations of the actual outturn of the staple products in each class and sort of soil. The grain value is then converted into money at the commutation price, based generally on the average of the 20 non-famine years immediately preceding the settlement, for the whole district, with some abatement for traders' profits and for the distance the grain has usually to be carried to the markets, and from the value of the gross produce thus determined, the cost of cultivation and a certain percentage on account of vicissitudes of season and unprofitable areas is deducted, and one-half of the remainder is the maximum taken as assessment or the Government demand on the land. After this, soils of similar grain-values, irrespective of their classification, are bracketed together in orders called *tarams*, each with its own rate of assessment. These rates are further adjusted with reference to the position of the villages in which the lands are situated and the nature of the sources of irrigation. For this purpose villages are formed into groups, in the case of dry lands, with reference to their proximity to roads and markets, and, in the case of wet lands, with reference to the nature and quality of the water-supply. This accounts for different rates of assessment being imposed on lands of similar soils, but situated in different groups or under different classes of irrigation.

The assessment thus fixed represents the commuted value of the Government share of the surface cultivation, but if minerals are discovered and worked in the land, a separate assessment will be levied therefor".*

These particulars relate to the process of original settlement, which has now been completed. At the re-settlement, which takes place at the close of the thirty

* Standing Orders of the Board of Revenue, Madras, Volume I, pages 2 and 3.

years settlement period, the settlement officer makes a detailed enquiry into the economic condition of the district and then comes to general conclusions as to whether there is justification for a change of the rates, and bases his suggestions for alteration of the assessment mainly on these general enquiries and on the average variations in prices of food grains during the preceding thirty years. The framework of the original settlement is not usually disturbed unless it is discovered that it is patently unsound. Under recent orders of the Government, whatever the enhancement that might be indicated by the enforcement of the half-net rule, it has been directed that the maximum enhancement will be limited to $18\frac{3}{4}$ per cent when the variation of rates consists only in a percentage enhancement based on the rise in prices.

65. The process of settlement in Burma is similar to that in Madras. For the purpose of determining the net produce the tract is divided into homogeneous circles, the soils are classified, and the normal outturns are valued at local harvest prices. From the value so arrived at is deducted the average cost of cultivation, including hire of cattle, cost of seed and the hire of such labour as is employed to supplement that of the cultivator and his family. The rates in Lower Burma are so framed that the assessment does not amount to more than one-fourth of the net produce. * Burma

It is of interest to note here that in Upper Burma, prior to 1901, a distinction was drawn between State lands, which were let out on rent, and private lands, on which land revenue was levied at a rate equal to three-fourths the rent taken on State lands. Under Regulation V of 1901, the legal distinction between rent on State lands and land revenue on non-State lands was abolished, and the rates in both classes of land have now been assimilated. Another unusual feature, which is common to Burma and the Punjab, is the practice over large areas of levying the charge only when a crop is grown.

66. Bombay differs from Madras in possessing a definite statute which regulates survey, assessment and other matters connected with settlements and resettlements. In addition it has reached the stage at which the first resettlements have been completed. Under section 48 of the Bombay Land Revenue Code of 1879, revenue on land † Bombay.

* Report of the Burma Land Revenue Committee, Chapter V.
† The Bombay Survey and Settlement Manual, Volumes I and II, and appendix to the Report of the Burma Land Revenue Committee.

is assessed according as it is used for agriculture or building or any other purpose. When land used for one purpose and assessed for that purpose is used for any other purpose, the assessment fixed on it is liable to be altered, *even during the currency of a settlement.*

The system of assessment in Bombay is essentially an empirical one. The system originally introduced by Mr. Pringle in the Poona district was more or less similar to that of Madras, but it broke down completely, partly owing to its complexity, but mainly because the assessments were too high. A new system devised by Mr. Goldsmid and Lieutenant Wingate was introduced about the year 1840 in Poona, and then with slight modifications extended to the rest of the Presidency. The procedure adopted by these two officers has been concisely described in a joint report submitted by them in 1840:

> "The present condition of the agricultural classes, the state of particular villages, the amount of the Government realisations, the prices of produce, and similar considerations, compared with those of preceding years, afford us the chief groundwork for determining satisfactorily what abatement or addition should be made to the existing Jumma. We also by a similar process arrive at an opinion of what the rates of the different soils should be, and by applying these to the ascertained area and classification we find what amount of Jumma these rates will produce, and by examining whether this is as much in abatement or excess of the existing Jumma as our previously formed opinions had led us to think necessary, we are enabled to correct our first estimate of the approximate amount of the Jumma and thereby finally settle our rates."*

At the original survey the lands were classified after careful enquiries as to their fertility into several groups, and their relative values expressed in fractions of a rupee, 16 annas representing the best class of soil. The classification of the soils was not made with the object of basing the assessment on the net produce, but merely served as a basis for the apportionment of the total demand determined for the area on general considerations.

* The Bombay Survey and Settlement Manual, Volume I, page 64.

The determination of the assessment involved three distinct operations The *talukas* were first grouped according to "marked and permanent distinctions",* such as climate, situation and the general condition of cultivation The next process was the determination of the total demand for the area under settlement by an examination of the revenue and economic history of the tract The third and final operation was the distribution of the aggregate thus determined over the individual survey numbers with reference to the soil classification described above The settlement officer's final decision thus depended "not upon the formal working out of results based on theory, but rather upon the subjective impressions of local knowledge and experience" †

67 In the United Provinces, the settlement of the land revenue is governed by rules framed under the United Provinces Land Revenue Act of 1901 The settlement operations consist mainly in fixing the rents of the *mahals* or estates concerned At the commencement of these operations, the settlement officer inspects the villages and groups them into assessment circles possessing a general similarity of soil and physical character He then determines the rent rate for each class of soil The chief guide adopted for this purpose is the recorded cash rental of lands under ordinary crops and held by permanent and responsible tenants who depend for their livelihood upon the produce of their holdings These rentals are accepted as the basis for assessment unless they are found to be fraudulent, inadequate or abnormal The settlement officer then determines the rent rate with reference to the ascertained rentals, after taking into consideration factors such as means of communication, increase of population during the currency of the expiring settlement, crop statistics, and increase in the area cultivated The revenue assessed upon each *mahal* is nominally 50 per cent of the net assets calculated on the lines indicated above, but in determining the percentage various considerations, such as the number and circumstances of the proprietors, the existence of heavy charges on account of *malikana* and the effect on the proprietors of a large enhancement are taken into account Another factor considered is the caste and consequent capacity of the tenant The variations due to these among other factors are so great that in a recent settlement report it

The United Provinces

* The Bombay Survey and Settlement Manual Volume I page 80
† Do. do do pages 1_3-121

is recorded that the assessment on similar plots under different conditions of cultivation may vary as 7 : 4 : 3.*

The Punjab.

68. In the Punjab, theoretically the revenue is collected, not from individual cultivators, but from the holders or joint holders of large estates, which normally coincide with administrative villages. These proprietors, however, are in most cases groups of villagers, not necessarily of common ancestry, who occupy severally quite small holdings of not more than a few acres. Although the heads of these groups are recognised as joint owners and in theory jointly responsible for the revenue and represented by one of their number as headman or *lambardar*, in practice the share of revenue due from each is distributed and separately recoverable. Thus, as a general rule, the cultivators are in fact peasant proprietors. The standard assessment does not exceed half the net assets. These are generally estimated on the basis of recorded rentals, which are mostly in kind. The terms 'net assets' and 'rent' are not identical, but generally a full and reasonable rent paid by a tenant-at-will is regarded as a sufficiently near approximation to the net assets and the safest guide and measure in estimating them. The assessments are therefore in practice based on rents. The exact proportion to be paid to the Government is fixed after an enquiry into the general economic conditions of each area or circle of assessment. A peculiar feature of the land revenue of this province, as of Burma, is the large area in which there is in force the system of fluctuating assessments, in other words of charging only when a crop is grown.

The Central Provinces.

69. The system in Berar is similar to that in Bombay. That obtaining in the Central Provinces is essentially a zamindari system. The zamindar, or *malguzar* as he is there called, was originally a farmer of taxes, and the present status of landlord was conferred upon him by the British Government, who made him responsible for the collection of land revenue in his *mahal*. The system of assessment is so closely associated with the tenures on which land is held that a brief description of the latter is necessary for a clear understanding of the problem. There are three classes of tenants under the *malguzar*—

(1) Absolute occupancy tenants, whose rents are determined by the settlement officer and are

* The Final Settlement Report of the Muzaffarnagar District, 1921.

unalterable during the currency of a settlement Their right is heritable and transferable subject to pre emption by the *malguzar*

(2) Occupancy tenants, whose rents are also fixed by the settlement officer, but are liable to enhancement decennially either by agreement with the landlord or on an application by the latter to a revenue officer This right is transferable subject to payment of *nazarana*, or consent money, to the *malguzar*

(3) Tenants at-will, who work on the *malguzar's* home farm, which consists of two kinds of land known as *sir* and *khudkasht* The rack rented tenant-at will is found only on the *sir* land, for *khudkasht* land cannot be leased even for a year without the lessee acquiring occupancy right in it

The fixation of rents, which is the most important settlement operation, is complicated by the general and increasing tendency on the part of *malguzars* to allow rents to continue at a low figure and to exact *nazaranas* on new leases of surrendered holdings or on the leasing of land for the first time The practice of levying *nazarana*, which is in essence the capitalisation of the increase of rent, is of comparatively recent development but it is very widespread, and has resulted in serious evils which have been summarised as follows in the settlement report of the Nagpur district in 1917 —

(1) The incoming tenant is deprived of most or all of his accumulated capital, which he might otherwise devote to improving the holding or to buying stock

(2) Still worse, he may start his tenancy in debt *Nazarana* is a very common cause of the indebtedness of tenants in the best parts of the district

(3) Worst of all, the *nazarana* often takes the form of a bond to the *malguzar*, or sometimes the debt is liquidated by service

(4) The system leads to disputes between co-sharers

(5) The revenue of Government is defeated, for much of the annual value of the land is capitalised

(6) The money, being lightly come by, is often not used to the best advantage by the *malguzar*.

local custom, and the relations between the tenant and the Government are regulated, as in the case of private estates, by the Bengal Tenancy Act.

Later developments—review of the systems in 1901-02 and its results.

74. In considering the later developments of the systems that have just been described, it is important to notice two main landmarks, first, the general review of the systems during the régime of Lord Curzon and the orders passed thereon, and second, the introduction of the Reforms and the discussions that have resulted from the recommendations of the Joint Select Committee on the question of the land revenue.

Towards the end of the last century, as a result of a series of severe famines and the representations of Mr. R. C. Dutt and certain other retired officers of the Indian Civil Service, the purport of which was that the intensity and frequency of the famines were largely due to the impoverishment of the people caused by over-assessment, the Government of Lord Curzon undertook a detailed and exhaustive enquiry into the system of land revenue assessment in all the provinces with special reference to the economic effects of the land revenue. The conclusions arrived at were summarised in a Resolution issued in 1902, as follows:—

"(1) That a permanent settlement, whether in Bengal or elsewhere, is no protection against the incidence and consequences of famine.

(2) That in areas where the State receives its land revenue from landlords, progressive moderation is the keynote of the policy of Government, and that the standard of 50 per cent of the assets is one which is almost uniformly observed in practice and is more often departed from on the side of deficiency than of excess.

"(3) That in the same areas the State has not objected, and does not hesitate, to interfere by legislation to protect the interests of the tenants against oppression at the hands of the landlords.

"(4) That in areas where the State takes the land revenue from the cultivators, the proposal to fix the assessment at one-fifth of the gross produce would result in the imposition of a greatly increased burden upon the people.

"(5) That the policy of long-term settlements is gradually being extended, the exceptions being justified by conditions of local development.

"(6) That a simplification and cheapening of the proceedings connected with new settlements, and an avoidance of the harassing invasion of an army of subordinate officials, are a part of the deliberate policy of Government.

"(7) That the principle of exempting or allowing for improvements is one of general acceptance, but may be capable of further extension.

"(8) That assessments have ceased to be made upon prospective assets.

"(9) That local taxation as a whole, though susceptible of some redistribution, is neither immoderate nor burdensome.

"(10) That over-assessment is not, as alleged, a general or widespread source of poverty and indebtedness in India, and that it cannot fairly be regarded as a contributory cause of famine."

The Government of India further laid down liberal principles for future guidance and expressed their readiness, where the necessity was established, to make further advance in respect of—

"(11) the progressive and graduated imposition of large enhancements;

"(12) greater elasticity in the revenue collection, *facilitating its adjustment to the variations of* the seasons, and the circumstances of the people;

"(13) a more general resort to reduction of assessments in cases of local deterioration, where such reduction cannot be claimed under the terms of settlement."

These principles have been followed for the last twenty years, with the general result that settlements have tended to be conducted more or less solely on the basis of prices and rentals, and there has been a continuous tendency to reduce the percentage of increase. In this respect, the present practice of some Local Governments goes much further than the principles laid down twenty years ago.

Recommendations of the Joint Select Committee and the discussions which ensued.

75. The discussions which were for a time set at rest by the issue of the resolution quoted above have been revived by the pronouncement of the Joint Committee of Lords and Commons to the effect that they were of opinion that the time has come to embody in the law the main principles by which the land revenue is determined, the methods of valuation, the pitch of assessment, the periods of revision, the graduation of enhancements and the other chief processes which touch the well-being of the revenue payers. They added : "The subject is one which probably would not be transferred to Ministers until the electorate included a satisfactory representation of rural interests, those of the tenancy as well as of the landlords, and the system should be established on a secure and satisfactory basis before this change takes place." This pronouncement has led to many discussions in the local legislatures, which have been characterised by much criticism and no little misunderstanding of the existing systems, a widespread belief that they take for the Government a much larger share of the produce of the land than they actually do take, much emphasis on the expense of settlement and the indefinite nature of the results, and generally by a lack of constructive proposals except either for the introduction of a permanent settlement or for the continuation of the existing arrangements coupled with severe limitations on the development of the revenue.

Bills drafted in the different provinces.

76. Meanwhile some Local Governments have prepared and others have also introduced Bills designed to carry out the wishes of the Joint Select Committee with some of the modifications suggested by the legislatures. The main features of these Bills may be summarised under three heads—

(1) The principles of settlement and the determination of the standard rate of assessment;

(2) the limitation to be imposed on enhancements at resettlements; and

(3) the period of settlement.

Under the proposals which were put forward in Madras, and rejected by the Legislative Council at the first reading, the theoretical maximum assessment was to continue to be half the net produce. The precise method by which the assessment was to be determined was, however, not indicated in the Bill, though the various factors

which are to be taken into consideration in arriving at the figure were specified According to the Punjab Bill, the assessment is to be 40 per cent of the net assets in the case of lands cultivated by tenants and $33\frac{1}{3}$ per cent in that of *all* lands cultivated by their owners, the term 'net assets' being defined as the estimated average annual surplus produce of an estate or group of estates remaining after deduction of the ordinary expenses of cultivation In the United Provinces, the assessment is to be ordinarily 40 per cent of the net assets, but may vary from 35 to 45, and under certain conditions may fall as low as 30 per cent In the Bills relating to the Central Provinces and Berar, the principles of settlement are described in general terms, and the detailed application of these principles is apparently to be regulated by rules to be issued under the statute

An important feature of the Bill put forward by the Madras Government was the limitation of all future enhancements at resettlement to a maximum of $18\frac{3}{4}$ per cent, and it is understood that a similar limitation has been imported by the Select Committee into the Assam Land Revenue Settlement Bill in so far as concerns the revenue assessed on any individual estate in an "established village" In some other provinces the existing rules governing the enhancement of assessment have been embodied in the Bills These limitations are in the Central Provinces, 100 per cent on an individual holding 66 per cent on the total rentals of a *mahal*, and 33 per cent on the total rents of a group In the United Provinces, the enhancement on any *mahal* is not to exceed one third of the expiring demand, unless this limitation would result in fixing the revenue at less than one third of the net assets A similar limitation to 33 per cent on the total assessment of a group is already enforced by executive order in Bombay, where no Bill has yet been drafted

In respect of periods of settlement, the Central Provinces Bill allows for a period which may vary from 20 to 30 years, that for Berar for one which may vary from 25 to 35, Madras retains the existing period of 30 years, and the United Provinces Bill proposes to extend it in all ordinary cases to 40

77 It will be observed from the above description of the systems of assessment in the different provinces that, except in British Baluchistan the land revenue has ceased to represent a portion of the gross produce There

are three distinct methods by which the assessment is calculated. In the United Provinces, the Punjab and the Central Provinces, the Government demand is theoretically based on an economic rent, but actually takes many other factors into consideration. In practice, the basis of assessment is very much less than the economic rent, partly on account of the operation of tenancy laws, and partly on account of the deliberate moderation of settlement officers.

In the case of Madras and Burma, the assessment is based on the net produce, i.e., the gross produce *minus* the cost of cultivation. In Madras, the cost of cultivation is calculated on the assumption that all labour is hired and includes an allowance for the labour of the cultivator and his family. In Burma, no allowance is made for this item, and the Burma Land Revenue Committee of 1921 recommended that the Madras procedure should be followed. In practice, in both cases, where there is a comparatively large proportion of rent-receivers, the rents actually paid by cultivating tenants are utilised as a check on the estimates of the cost of cultivation, and the net produce as estimated by the settlement officers is invariably less than the competitive rent.

In Bombay, the rate of assessment is arrived at empirically with reference to general economic considerations, and in practice is based on the actual rents paid rather than on any theoretical calculations of the net produce.

Is the land revenue a tax or a rent?

78. Before entering upon the criticisms that have been made upon the systems as above described and the proposals of the Local Governments for modifying them, it seems desirable to examine a question which has lain at the root of all discussions of the subject of land revenue in the past, namely, whether this item of the revenues of the State is of the nature of a tax, and so liable to be tested by the canons of taxation, or of that of a rent taken in view of the State ownership of the land of the country.

These questions have been the subject of controversy for nearly a century and a half. In the earlier days of British rule, the precise nature of their relationship with the Government was of very great importance to the agricultural classes, since the recognition of State ownership

of the land implied the theoretical right of the Government to claim the full economic rent The limitations put by the Government on enhancements of assessment and the exemption enjoyed by the landlords from payment of income tax since 1873 have to a considerable extent relieved the apprehensions of the agriculturists, and the subject has not consequently excited much interest during the last twenty years But the proposal made by several of the witnesses for the levy of an income tax on agricultural incomes is likely to revive the controversy, and it seems therefore desirable to examine the point in some detail

79 The Committee are divided on some of the points raised by this question, and they therefore propose to consider the problem in relation to specific issues, so as to indicate the nature of the division The points that arise for discussion are— *The subsidiary issues raised*

(1) Did the State claim exclusive proprietary right over the land—
   (a) under Hindu rule,
   (b) under Muhammadan rule?
(2) Did the British Government succeed to any such right?
(3) Is the State now the proprietor of land held—
   (a) on zamindari, or
   (b) on ryotwari tenure?
(4) If not, are the zamindars and ryots, respectively, the possessors of the proprietary right subject to the payment of land revenue?
(5) *Should the land revenue be described as a tax or rent?*

The first two points involve considerations of history which have been very completely and exhaustively reviewed by eminent writers such as Sir Mountstuart Elphinstone, Professor H H Wilson and Colonel Baden Powell, and also by the Bombay High Court in the elaborate judgment in a case from Kanara disposed of in 1873

80 The conclusion arrived at by the High Court on the first point may be stated in their own words *The Hindu and Muhammadan rulers never claimed exclusive rights in the land*

"This review of the authorities leads us to the conclusion arrived at also (after careful discussion of the question) by Professor H H Wilson, that the proprietary right of the sovereign derives no warrant from the ancient laws or institutions of the Hindus and is not recognised by

modern Hindu lawyers as exclusive or incompatible with individual ownership."*

The Muhammadan law that was prevalent during Muhammadan rule in Hindustan was that of the school of Hanifa, and one of the greatest authorities on the subject of land tenures under that law was Colonel Galloway, who summarised his conclusions as follows:—

"The soil was the property of the cultivator as much as it could be. Law gave no power, policy gave no motive to remove him or to disturb him, so long as he paid his taxes. When he did not, his lands could be attached; and so can those of the first *peer*, holding by the firmest tenure of the English law. The right of the Indian husbandman is the right of possession and of transfer; and the rate of his land tax was fixed; often indeed the amount. In what respect, then, is his right of property inferior to that of the English landholder?"†

On these two points the Committee are unanimously of opinion that, under both Hindu and Muhammadan rule, the State never claimed the absolute or exclusive ownership of the land and definitely recognised the existence of private property in it.

The condition of affairs when the British succeeded.

81. Before discussing the next point, namely, the position of the landlord and the cultivators under British rule, a brief mention may be made of the state of affairs during the chaotic period that intervened between the death of Aurangzeb and their assumption of the administration of the country, since the theory has been advanced in some places that, as the authority of the Emperors declined, some provincial governors and adventurers made a definite claim to the ownership of land to justify their exorbitant demands. There is considerable historical evidence that the land revenue and the additional levies superimposed on the standard assessment, in the shape of *abwabs* in Bengal and *pattis* in the Maharashtra, constituted a very oppressive tax, and very often made the possession of land a burden rather than a privilege. It seems clear, however, from the statements of contemporary historians, that no such right on the part of the ruler was definitely recognised. Sir Mountstuart Elphinstone,

* Bombay High Court Reports, Volume XII, 1875.
† Galloway: Law and Constitution of India, 1825, page 48.

who had been directed to report on the Mirasi tenure in the country under the Mahrattas, summarised the conclusions he based on the reports of his three Collectors and on his own enquiries as follows:—

"That a large portion of the ryots are the proprietors of their estates, subject to the payment of a fixed land-tax to Government; that their property is hereditary and saleable, and they are never dispossessed while they pay their tax, and even then they have for a long period (at least thirty years) the right of reclaiming their estate on paying the dues of Government. Their land-tax is fixed; but the late Mahratta Government loaded it with other impositions, which reduced that advantage to a mere name."*

In the case of Southern India, Lieutenant-Colonel Mark Wilks made the following statement:—

"We have now passed over the tract which I had proposed to trace, and, as I hope, have proved to the satisfaction of every impartial mind the positive and unquestionable existence of private landed property in India. After proving its distinct recognition in the ancient Sasters or sacred laws of the Hindoos, we have clearly deduced its derivation from that source, and its present existence in a perfect form in the provinces of Canara and Malabar, and the principalities of Coorg and Travancore, which had longest evaded the sword of the northern barbarians: we have found it preserved in considerable purity under Hindoo dynasties, and comparatively few revolutions in Tanjore until the present day: we have traced its existence entire, but its value diminished, in Madura and Tinnevelly, which had experienced numerous revolutions, and had long groaned under the Mohammedan yoke. In the provinces adjacent and west of Madras, which had sustained the close and immediate gripe of these invaders, we have shewn by ancient documents its immemorial existence in former times, and even at the present day the right, in quality, clear and distinct, but in value approaching to extinction: and we have observed in the later years of the

* Quoted in Bombay High Court Reports, Volume XII, 1875.

dynasty of Hyder, the perfect landed property of Canara approaching the same unhappy state in which the proprietor from fear disowned his property, and a small interval remained before its very existence would be buried in oblivion."*

As regards Bengal, as late as 1715, when the Company applied for a grant of the *talukdari* of 38 villages near their Bengal factory, they were told that they would have to purchase the rights of the owners; and when Gulam Hussain, the historian, was asked by Sir John Shore whether he ought to pay for land of which he wanted to take possession, his reply was 'the Emperor is proprietor of the revenue; he is not proprietor of the soil'.†

Under the Permanent Settlement Regulation of 1793, the Government definitely conferred proprietary rights on the zamindars in Bengal, and it has been inferred from this that the Government were the actual proprietors at the time. Further, in Regulations XXV and XXXI of 1802 of the Madras Code, it is specifically stated that the property in land belonged to the Government "by ancient usage". This point, however, has been settled by two legal decisions by the Privy Council, one in 1828 and the other in 1874. In the former, in a case relating to Calcutta, the Lord Chancellor stated as follows:—

> "Considering with the best attention in my power these papers, they confirm most strongly the opinion I should have derived from the Permanent Regulations, namely, that the proprietor of the soil had a permanent interest in it at the time when the English established themselves in that settlement."‡

The second judgment is in the case of the *Collector of Trichinopoly* v. *Lekkamani* and others, decided in 1874§. This decision also disposes of any inferences hostile to the right of private property in the soil which had been drawn previously from Regulations XXV and XXXI of 1802.

* Lieutenant-Colonel Mark Wilks: Historical Sketches of the South of India, 1810, Volume I, Chapter V, pages 183-185.

† Baden Powell: Land Systems of British India, Volume I, pages 230-231.

‡ Moore's Indian Appeal Cases, Volume I, *Freeman* v. *Fairlie*, 1828.

§ Macpherson's Indian Appeals, Volume I 1873-74, pages 282 to 315.

82 While it is thus clear that the British did not succeed to any rights of absolute ownership, it would obviously be dangerous to draw final conclusions of a general nature regarding the conditions in a vast country with a heterogeneous population split up into large numbers of small States, each of which had its own separate history and which had come under the British Government at different periods and under different circumstances Accordingly, Colonel Baden Powell has been very guarded in his summary of the position of the British Government as follows —

Colonel Baden Powell's summary.

"(1) Government used its own eminent claim as a starting point from which to recognise or confer definite titles in the land, in favour of persons or communities that it deemed entitled

"(2) It retained the unquestionable right of the State to all waste lands, exhibiting however, the greatest tenderness to all possible rights either of property or of user that might exist in such lands when proposed to be sold or granted away This right it exercised for the public benefit, either leasing or selling land to cultivators or to capitalists for special treatment thus encouraging the introduction of tea coffee, cinchona and other valuable staples Or it used the right for constituting State forests for the public benefit or for establishing Government buildings, farms, grazing grounds, and the like

"(3) It retained useful subsidiary rights, such as minerals, or the right to water in lakes and streams In some cases it has granted these away, but all later laws reserve such rights

"(4) It retained the right of escheat, and of course to dispose of estates forfeited for crime, rebellion etc

"(5) It reserved the right necessary for the security of its income (a right which was never theoretically doubtful from the earliest times) of regarding all land as in a manner hypothecated as security for the land revenue The hypothecation necessarily implies or includes a right of sale in case the revenue is in arrears "*

* Baden Powell Land Systems of British India, Volume I, pages 234 235

The zamindars and ryots are possessors of proprietary rights subject to payment of land revenue.

83. The Committee are unanimously of opinion that, in the case of lands under permanent settlement, the Government have now no proprietary right, and that as regards *khas mahal* estates and waste lands outside the permanently-settled areas, they have full proprietorship. On the question of their rights in relation to ryotwari and other temporarily-settled tracts, the Committee are divided in opinion. On the one side, the view is held that the position of a ryot in a temporarily-settled tract is not fundamentally different from that of the zamindar so long as he pays the annual land revenue, since there is no restriction on the right of the ryot to sell or mortgage the land. He is under exactly the same obligations to the Government as the zamindar, whose estate is also liable to be sold for arrears. On the other hand, it is pointed out that the ryot, at any rate in some provinces, is in a position to relinquish any definite unit of his land, while in others the land revenue demand is liable to be revised if the land is put to some use other than agriculture. It is further contended that the question whether in ryotwari and other tracts the Government's right amounts to a partial proprietorship does not admit of a categorical reply, since waste lands, the right of the State in which is undisputed, have been assigned on different principles, some being leased and others sold outright. Instances of such peculiarities arise in the case of the Canal Colonies in the Punjab and of certain new colonies recently instituted in Burma. It is held to follow that, when the Government have assigned waste lands permanently subject to payment of land revenue, the nature of the contract between the Government and the landlord can best be described as a lease subject to revision at resettlement. While, however, the Committee are not of one mind as to the possibility of arriving at an exact and general definition of the position of the landholder in a temporarily-settled area, they are agreed that in the generality of cases the zamindars and ryots are respectively the possessors of the proprietary right subject to the payment of land revenue.

The nature of the land revenue.

84. Turning now from the question of the tenure to the nature of the levy itself, the Committee find themselves unable to record a unanimous and definite finding on the vexed question whether the land revenue is a tax or a rent, on which they are again equally divided. There are undoubtedly some cases in which it is a pure rent, such as those of the ground rents in towns or of land

leased to colonists in Burma, and an element of rent prevails in other similar cases. On the other hand, the contention that it is a tax is reinforced by the facts that the State has never claimed universal ownership; that it has conferred proprietary rights in permanently-settled areas; and that it imposes no restriction on sale or mortgage in the case of ryotwari land. It is argued, in the second place, that the levy differs from a tax and resembles a rent in the fact that it cannot be altered to suit the requirements of the State, in the long period for which it is fixed, and in the amenities given to the payers of land revenue in the shape of rent-free house-sites, the use of common lands, the grant of loans and otherwise. To this it is answered that there are many functions of a landlord which the State does not perform, and that the process of assessment and collection is akin to that of a tax-collector. Thirdly, it is urged that, whatever the position was originally, the Government demand has in a great many cases been amortised in the purchase price when lands have changed hands, and no longer operates as a tax on present holders. The reply made to this is that a similar process may take place in respect of any differential tax on capital goods. The controversy can only be decided by those who can first agree upon definitions of the terms 'tax' and 'proprietor', which are themselves subjects of endless dispute, and the Committee can best sum up their conclusions by saying that, though they are divided in opinion as to whether or not the land revenue should be regarded as a tax on the individual who pays it, they are agreed that, since it forms a deduction from the national dividend, it should be taken into consideration in dealing with the question of the incidence of taxation on the country as a whole.

85. They now propose, in accordance with their instructions, to examine the application of the canons of taxation to the land revenue systems, in so far as they are applicable. *Application of the canons of taxation.*

86. *Certainty.*—It will be observed from the description of the systems given in the earlier portion of this chapter that, generally speaking, the land revenue is a demand which is fixed during the currency of a settlement, and consequently, once the settlement is made, the cultivator knows precisely what he has to pay in *The canon of certainty.*

the shape of assessment on his land. There are exceptions to this rule in the case of the fluctuating assessments in the Punjab and in Burma and in that of the variable charges which are responsible in a large measure for the annual settlements in Madras. On the whole, however, it may be said that the canon of certainty is satisfied.

The canon of convenience.

87. *Convenience.*—As regards the ordinary aspect of the canon of convenience, namely, convenience of the time fixed for payment, the Government policy generally is to collect the land revenue in instalments at periods convenient to the landholder, though in some cases it has not always been practicable fully to carry out this policy, since the postponement of any instalment from one official year to the next involves a complete loss of that instalment to the public funds. The Committee, however, observe that convenience has in some respects been sacrificed to certainty. The settlements are based on averages, the Government assessment in theory representing the sum that may be fairly demanded in a normal season. The income out of which the assessment has to be paid, however, fluctuates enormously with the vagaries of the monsoon and other causes. As the Government of India have remarked in their Resolution of 1902, "the agricultural classes have not, as a rule, yet learnt to regard a good harvest, not as an occasion for larger expenditure, but as a means of insurance against failure of crops. In truth, to a poor family a short harvest must be a severe calamity. The assessment may absorb but a small share of the gross produce of its land. But its circumstances depend on the net produce, on which the assessment is in higher proportion, and it is obvious that on inferior land a substantial deficiency in the outturn may leave no net produce whatever, so that (in the absence of savings) the assessment can only be paid by borrowing or by stinting the necessaries of life. When such a deficiency is frequent the rigid demand of the land revenue must add very materially to the hardships endured by a poor and uneducated people."* Some relief is given in many provinces by the partial or complete remission of the assessment when there is a failure of the crop, but it is undoubtedly a fact that the inelasticity of the land revenue system drives a large number of people to the money-lender during bad seasons.

* Resolution of the Government of India on the Land Revenue Policy of the Indian Government, 1902.

A second source of inconvenience is apt to arise t of the long period of the settlements A tax based the income of the year is met out of it and forms rt of the family budget and standard of living One it is changed once in a generation, and which is in iny cases amortised, does not make itself felt in the me way, and when the change does come, if it is in e direction of increase, it is felt as a serious hard ip This is mitigated, it is true, by arrangements for inging in the enhancements by degrees, and still more by reducing the extent of the increase to be taken it that again has the result of reducing the yield of e tax, while perpetuating the inequalities in its incidence

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88 *Economy* —The application of the canon of eco omy is a matter wide enough to form the subject of separate enquiry, and one which cannot be decided i considerations relating to the land revenue alone The canon of eco nomy

To take the question of survey and settlement first has been seen how several other countries, which have *oceeded on the basis of a cadastre, have let it get* mpletely out of date, largely by reason of considera- ons of expense India has, in some provinces at any te, the most elaborate revenue survey in the world, combines with this the most elaborate practice of actionisation, and the cost of demarcation is greatly ihanced by the absence of hedges The expense both making and maintaining a survey is consequently iormous, and more than one Legislative Council has, nce the Reforms, rejected the vote for the Land ecords Department The desirability of reducing the penditure has been abundantly recognised, and numer- is enquiries and experiments have been made in the rection of cheapening the work, but so far without onspicuous success On the other hand, there can be o doubt that the record serves many purposes other

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A third source of inconvenience arises out of the settlement itself In some provinces, where the records are comparatively simple and the settlement is with a village as a whole, the process of resettlement involves comparatively little disturbance of the village economy Elsewhere, when the process continues for years together and involves meticulous enquiry by a very large staff, to be followed by appeals against the assessments which are reckoned in thousands, the inconvenience and expense to the ryots concerned is undoubtedly very considerable

88 *Economy* —The application of the canon of economy is a matter wide enough to form the subject of a separate enquiry, and one which cannot be decided on considerations relating to the land revenue alone

The canon of economy

To take the question of survey and settlement first it has been seen how several other countries, which have proceeded on the basis of a cadastre, have let it get completely out of date, largely by reason of considerations of expense India has, in some provinces at any rate, the most elaborate revenue survey in the world, it combines with this the most elaborate practice of fractionisation, and the cost of demarcation is greatly enhanced by the absence of hedges The expense both of making and maintaining a survey is consequently enormous, and more than one Legislative Council has, since the Reforms, rejected the vote for the Land Records Department The desirability of reducing the expenditure has been abundantly recognised, and numerous enquiries and experiments have been made in the direction of cheapening the work, but so far without conspicuous success On the other hand, there can be no doubt that the record serves many purposes other

than that of revenue—a circumstance which is sufficiently demonstrated by the fact that similar surveys have been found necessary in the permanently-settled provinces.

The inability of the staff to maintain the survey record and the accounts which depend on it is responsible in Madras for a large addition to the cost of a settlement, the prelude to which is the appointment of a special staff to bring the village accounts up to date. The settlement enquiry itself is marked by much meticulous detail, and it has frequently been pointed out in the Councils that the average increase in the year's revenue barely covers the cost of the staff. Of course the one is recurring and cumulative while the other is not, but the fact is significant when the system is being tested by the canon of economy.

In considering the general staff of the Revenue Department, the first point to be noted is that the village organization, which is taken as part of the natural order of things when it is paid for by contributions in kind or out of the proceeds of village lands set apart, becomes at once a target for criticism when its salaries are placed on the budget, and that from two opposite points of view, the one, the immensity of the total bill, and the other, the inadequacy of the salary of the individual. Here again, there are numerous duties other than those connected with the revenue to be performed. It can only be said as regards them all that, while it is impossible materially to reduce expense by breaking up the traditional organization, the attempt to regularise it by paying cash salaries has led to the sharp realisation of a burden which was formerly accepted as if it were part of the order of nature.

Immediately above the village staff are the *kanungos*, or revenue inspectors, whose duties are almost entirely connected with the revenue. Generally speaking, their number depends on the degree of elaboration of the survey and settlement arrangements and on the extent of the fluctuating charges. Thus, in parts of the Punjab and Burma, where the sum due by the cultivator has to be reckoned year by year with reference to area cultivated and crop grown, the Committee cannot help thinking that the expense involved is liable to be out of proportion to the revenue. Elsewhere in places considerable expense is involved by the elaboration of the water-rate rules, while in Madras there were

a large number of miscellaneous fluctuating charges which involved inspections with a view to settlement at the annual *jamabandi* which is peculiar to this province It is understood, however that the number of these has now been reduced

The officers next in rank namely the Tahsildars and their assistants, are still revenue officers in the main, but have a large proportion of their time taken up by the work of other departments Their number depends on this as well as upon the degree of elaboration of the settlements In the next grade that of the sub divisional officers the proportion of revenue work is still further diminished and it becomes still more so when that of the Collector is reached Above the Collectors are Commissioners and Financial Commissioners or Members of Boards of Revenue, whose duties are largely taken up with land revenue and settlement problems

The Committee have made several attempts to isolate the charges debitable to land revenue with a view to comparing the percentages in different provinces with the revenue collected but they have found it impracticable owing to a variety of causes In the case of the village staff their salaries are sometimes entered on both sides of the account In other places their remuneration is a percentage on the land revenue which may or may not be taken before the money is brought to account In other places again their remuneration is paid by the villagers themselves or is met out of the proceeds of lands assigned for the purpose Again this remuneration in some provinces includes that of the village staff for *watch and ward while in others a separate tax is levied* In the case of officers higher up in the scale the duties not connected with the land revenue vary from province to province and the fractions of the cost which different Local Governments propose to debit to the land revenue vary so largely that the Committee are not able to arrive at a common formula

They can only conclude their consideration of the application of the canon of economy to the land revenue by saying that unquestionably, if the assessment and collection of the land revenue were the only matter in issue it would be practicable to devise a scheme under which the present revenue could be collected at a much smaller cost The justification of the high cost of the settlement and collectorate establishments must therefore be looked for in the great advantages derived from the

It will be observed that, while prices have risen by 117 per cent, the land revenue has risen by only 20 per cent, and that a portion even of this rise must be due to the increase by 7 per cent in the area sown.

The difficulty of obtaining any general idea of incidence — the methods suggested

93. For the reasons just given, which operate between district and district, as well as between province and province, it is so difficult as to be almost impossible to obtain any general idea of the incidence of the land revenue. The Committee, however, feel that it is incumbent on them to make the attempt and they therefore proceed to examine the five possible standards which have been suggested to them, and which are as follows:—

(1) The ratio borne by the land revenue to the population.

(2) The ratio borne by the land revenue to the occupied area, i.e., the average assessment per acre.

(3) A comparison of the assessments per soil unit.

(4) The ratio borne by the assessment to gross or net produce.

(5) The ratio borne by the assessment to rents or annual value.

The land revenue per head may be distributed over the whole population for comparison between province and province, or again over the agricultural population for a similar purpose, or over the agricultural population for a larger or a smaller area for the purpose of comparing the incidence on the agriculturist with the incidence on the industrialist. These comparisons, though somewhat frequently made, are of little real value. The first is not a comparison of like with like, because the proportion of the agricultural population to the whole varies in different places, and the second because of variations of the fertility of the soil, the size of holdings and other conditions. The third may be useful as part of a general examination of the incidence of the whole system of taxation on classes of the population, but is of little value for other purposes.

The second method is equally useless for the purposes of the Committee, since any provincial comparisons based on such a method are vitiated by the different degrees of fertility of the soil, especially when the results of irrigation are considered.

The third method is possible only in provinces where a classification of soils with reference to their productivity has been made for purposes of assessment, and even there the figures are not comparable for regions with inherently different types of soil, nor is it found in practice that the classification has been done on sufficiently uniform lines to give satisfactory results

The fourth method, in so far as it concerns a comparison with gross produce, has been adopted in the reports of the Famine Commissions and elsewhere, but it is open to the serious objection that the expenses of cultivation vary enormously, not only with the nature of the soil, but also according to the crop raised It is quite out of the question, for instance, to base any comparison on the gross yield of a crop of sugarcane, paying a water-rate of Rs 45 an acre, and that of a crop of millet on dry land On the other hand, a comparison with net produce, which would be far more satisfactory, is in practice impossible since the expenses of cultivation are not known with sufficient accuracy and it would take years to ascertain them

94 There remains the last method, namely, a comparison of the percentage borne by the land revenue assessment to the competitive annual value This is accepted by a majority of the Local Governments as affording the most accurate basis of comparison if the competitive annual value can be ascertained Even in this case, however, it is pointed out that any comparisons that might be made would need a good deal of qualification, since, even where the proportion of assessment to rent is similar, there may be other factors, such as differences in the fertility of the soil or in the proportions of good soil to bad, variations in the competition for the land, or in the share of the net produce taken in the shape of rent, or in the cost of subsistence, which may materially affect the real comparative status of the cultivator On these grounds the Government of Bombay point out that, for a full comparison between provinces, it would theoretically be necessary to exhibit how the net produce is divided between tenant, landholder and State, and this would have to be done for various standards of net produce per acre for every province Unfortunately it has been found, as a result of the Local Governments' enquiries, not only that anything in the nature of theoretical perfection is out of the question, but that any information at all as to competitive rents is very difficult

Competitive annual value the most reliable, if figures obtainable.

to obtain, and when obtained shows variations of such a nature as to put the striking of an average of any value out of the question. It is proposed, therefore, to abstract below simply such information as the Local Governments have been able to give the Committee, grouping it for purposes of comparison with reference to the general similarity in the systems of settlement. In presenting even these figures, it seems necessary to repeat the warning issued by several Local Governments of the great danger that exists of incorrect and misleading conclusions being based upon any statistics that are not the result of full and detailed enquiry.

To begin with the permanently-settled areas, it is reported both from Bengal and Bihar and Orissa that rents are governed by custom and tenancy laws, that a competitive rent in agricultural tracts is unknown, and that any attempt therefore to ascertain the economic rent would only result in a speculative figure on which no reliance could be placed. The only figures of any sort that are available are some relating to the incidence of land revenue on customary rents in ten districts in Bengal, and of the average percentage borne by the total land revenue to the rental value of the land as determined for purposes of cesses in Bihar and Orissa. In both these cases of course the figure of rental is far below the economic rent. The percentage in the first case varies from 6.5 to 57.7, with an average of 21, and the average percentage in the second case is 12.5.

In the case of the Central Provinces, the Local Government declare themselves unable to give any figures that could be relied upon.

In the Punjab, the percentage taken of net rentals before settlement for 11 districts recently settled varied from 13 to 27, the average being 17.8, and after settlement from 19 to 36 per cent, with an average of 25. In the United Provinces, the percentage of revenue to rental value, which is less than the economic rental, inasmuch as it makes no allowance for *nazarana* and cesses, varied from 20 to 42 per cent, with an average of 27.

As regards the ryotwari provinces, in the case of Bombay, the percentage which assessment bears to rent varies from 17 to 50 in different parts of the Presidency. In Berar, in the case of two cotton taluks recently settled,

the average is 10 per cent, which may be taken as a minimum. In Madras the result of an elaborate examination of the question made ten years ago showed that the percentage of assessment to rental in the case of all classes of leases taken together varied from 10.7 to 29.0, the percentage in half the districts being less than 17.1. A further comparison in the case of the three districts in which resettlements have most recently been made shows variations from 6.25 to 24.1.

The chief conclusion resulting relates to the uncertainty of the systems.

95. The factor which chiefly forces itself on the attention in connection with these figures is the extreme uncertainty as to what is the share taken of the net produce of the land which share was till quite recently the chief source of revenue of the State. In other countries, as has been seen, the land tax is imposed at a definite rate upon a definite basis of assessment. In India the basis may be rentals or net assets. The rentals may be customary, controlled or assumed. The net assets may include or exclude the subsistence of the cultivator. The rate may vary with the opinion of the individual settlement officer as to the circumstances of the tract, with the conditions of the district at the time of settlement, with the conditions of tenancy, or with the opinions of the Local Government of the day as to what is a reasonable increase to take. As a consequence it is impossible to say what is the incidence of the land revenue upon the land, and as has been indicated above, the Local Governments have been almost unanimous in deprecating the basing of any comparisons upon the figures supplied by them. It seems to the Committee that this uncertainty as to both the basis of the assessment and the rate is one of the chief respects in which the Indian land revenue systems are open to criticism.

Other defects of the present systems summarised.

96. It is further evident that the land revenue viewed as a scheme of taxation is not only not progressive but actually tends in the opposite direction. At one end, the large landlords, many of whom are creations of the British Government, form one of the classes who pay a comparatively small part of their surplus towards the upkeep of the State. At the other end of the scale comes the cultivator of the uneconomic holding, in whose case the system of reducing the State's share from a share of the crop of the year to a cash average, coupled with the collection of land revenue at harvest time, has led to

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As regards the ryotwari provinces, in the case of Bombay, the percentage which assessment bears to rent varies from 17 to 50 in different parts of the Presidency. In Berar, in the case of two cotton taluks recently settled,

the average is 10 per cent which may be taken as a minimum. In Madras the result of an elaborate examination of the question made ten years ago showed that the percentage of assessment to rental in the case of all classes of leases taken together varied from 10.7 to 29.0, the percentage in half the districts being less than 17.1. A further comparison in the case of the three districts in which resettlements have most recently been made shows variations from 6.25 to 24.1.

95. The factor which chiefly forces itself on the attention in connection with these figures is the extreme uncertainty as to what is the share taken of the net produce of the land which share was till quite recently the chief source of revenue of the State. In other countries as has been seen the land tax is imposed at a definite rate upon a definite basis of assessment. In India the basis may be rentals or net assets. The rentals may be customary controlled or assumed. The net assets may include or exclude the subsistence of the cultivator. The rate may vary with the opinion of the individual settlement officer as to the circumstances of the tract with the conditions of the district at the time of settlement with the conditions of tenancy or with the opinions of the Local Government of the day as to what is a reasonable increase to take. As a consequence it is impossible to say what is the incidence of the land revenue upon the land and as has been indicated above the Local Governments have been almost unanimous in deprecating the basing of any comparisons upon the figures supplied by them. It seems to the Committee that this uncertainty as to both the basis of the assessment and the rate is one of the chief respects in which the Indian land revenue systems are open to criticism.

The chief conclusion resulting relates to the uncertainty of the systems.

96. It is further evident that the land revenue viewed as a scheme of taxation is not only not progressive but actually tends in the opposite direction. At one end, the large landlords many of whom are creations of the British Government form one of the classes who pay a comparatively small part of their surplus towards the upkeep of the State. At the other end of the scale comes the cultivator of the uneconomic holding, in whose case the system of reducing the State's share from a share of the crop of the year to a cash average, coupled with the collection of land revenue at harvest time, has led to

Other defects of the present systems summarised.

extravagant expenditure by an improvident class in good years, followed by indebtedness and transfer of lands to money-lenders in the lean ones. Meanwhile, one of the most elaborate cadastral surveys in the world has facilitated transfers, while the elaboration of the settlement systems has often resulted in producing arrangements which the ryot cannot understand. Even in cases where the assessment has been light, the lightness itself has aggravated these evils, since it has had the result of converting many a landholder who would have had to cultivate his land if the State's share had been larger into a rent-receiver living on the proceeds of another's labour. The net result has been the creation of a very large number of uneconomic holdings, the holders of which pay land revenue which would be inconsiderable if cultivation were intensive or on a large scale, but rests as a heavy burden upon a small and impoverished holder.

At the same time, the pressure of the land revenue is by no means the sole or even the main cause of a state of affairs of which low production, heavy indebtedness and excessive fragmentation of holdings are the chief symptoms. These must be attributed in the main to other causes, such as increase in the population, paucity of alternative employments, the law of inheritance, the attachment of the people to the soil and their unwillingness or inability without assistance to form their estates into economic holdings.

Nor does it appear that the entire exemption of the small holder from land revenue, which has been suggested in several quarters, would carry the benefits which are generally claimed for it. The exemption would either have to be given at settlement or from time to time as holdings were broken up below a fixed limit. If given at settlement, the effect would be to free certain pieces of land from revenue for a period, and the probabilities are that these would be sold by the holders, who would be able to secure a bonus equal to the capitalised value of the concession. If they were not sold, the net yield being *pro tanto* increased, the probabilities are that, if the conditions above recited continued, there would be further fractionisation and the original conditions reproduced. If the exemption was given from time to time, as individual cultivators were able to show that their holdings were less than the minimum, a premium would be put on fractionisation of the economic holdings. Moreover, the heavy loss

of revenue which would be incurred would have to be made up from other sources, and the burden of the relief would probably fall on industry and so *pro tanto* retard its development and curtail the demand for labour. In the result the position of the poorest holders who remained on the land would be no better than before, while their chances of alternative employment would be diminished.

The inequality pointed out above as between landholders of different classes may also be said to have been aggravated by the conspicuous absence in the Indian taxation system of an income tax on agricultural incomes or a death duty, which serve in the more advanced European countries and Japan to introduce an element of progression in the tax on land. Failure to utilise these sources of revenue has tended to shift the burden more and more on to the less prosperous cultivators.

It is needless to enlarge on the inelasticity of the land revenue. In the permanently-settled areas it is fixed in perpetuity. In those that are temporarily settled for a term it is commonly fixed for thirty years. The programme of settlement generally results in a moderate growth, the ratio of which tends steadily to decrease. This source of revenue therefore affords no help to the exchequer in time of stress. On the other hand, its very fixity operates hardly on the parties who pay it, who become accustomed to a certain standard of living in the currency of a settlement and are liable to have to change it when it is revised.

Meanwhile, the tendency which is so conspicuous in the systems of taxation in Western countries, namely, the allotment of this source of revenue mainly for local purposes, has not yet made itself manifest to any appreciable extent in India. The land revenue in India is still largely a direct impost levied almost solely for provincial purposes. Only a very small fraction of the tax collected from the cultivator is actually used for rural development, and the illiterate ryot is therefore unable to recognise the benefits which he derives from the direct tax he pays.

Proposed substitutes for the systems

97. It will be useful to bear these considerations in mind in examining three groups of proposals that have been placed before the Committee for the replacement or improvement of the land revenue systems. The first set are based upon the idea of redemption either in part or

in whole, the second on the substitution of a tax on produce for the revenue from the land, and the third on the substitution of a system of valuation coupled with a definite tax on capital value for the present system of ryotwari settlement.

Redemption.

98. The idea of redemption is generally associated rather with a desperate crisis in national affairs necessitating the raising of a capital sum than with a stable system of continuing taxation. It was resorted to in England during the Napoleonic wars and also in Italy in the critical period preceding the declaration of Italian unity, when a great part of the State lands and of the confiscated property of the ecclesiastical bodies was sold. In India redemption of the land revenue was resorted to on a comparatively small scale for some years after the Mutiny, and the result has been the creation of a number of revenue-free estates and the loss to the public revenues, in so far as they are concerned, of any part of the increment due to the advance in the value of land and the prices of produce. The scheme involves the idea of perpetuity and the risk of a charge of a breach of faith, if any subsequent Government finds it necessary at a later stage to impose taxes on land. An endeavour has been made to meet these objections in the present instance by an ingenious scheme drawn up by Sir Ganga Ram, who has put forward a proposal for redemption on a basis which would be sufficient to cover the normal rate of increment due to resettlements, and for the investment and deposit of the money so paid with the Accountants-General, who would then undertake to meet the land revenue demand on lands which might be redeemed from taxation. The advantages claimed for this scheme are that the Government would be saved the expense of making periodical settlements, and the cultivator would be free to make improvements in his land without any fear of possible enhancements of revenue. Further, that it would save the expense of yearly collections and would give the Government a secure source of income not dependent on the vagaries of the season. It is also claimed that it would help industries considerably, because the money invested would be at the disposal of the industrialists. These conclusions appear to involve a series of assumptions of a doubtful nature. In the first place, it is assumed that the ryot is able to command the sum needed to redeem the land revenue. If he has it in hand,

there is nothing to prevent him from investing the money in Government securities and paying the land revenue out of the interest on the sum so invested. If he has not, he would either have to borrow money for the purpose, or the State would have to advance it and recover it in instalments. For the successful working of either plan the amount of capital required would be enormous. Though a certain amount might come out of private hoards, most of the money would have to be borrowed. If it were borrowed privately, the rates of interest, which are already very high in Indian villages, would undoubtedly rise, and it would not pay the landlord to redeem the land by means of money borrowed at exorbitant rates unless the rate of capitalisation was fixed at a very low figure. In practice, only lowly assessed lands that happened to be in the possession of money-lenders and capitalists who could not find a better use for the money would be redeemed, and the scheme consequently would not benefit the classes for whom it is mainly intended.

If the State were to advance the money, it would have to recover it in instalments extending over a period of at least twenty years. The amortisation charge would obviously be greater than the annual assessment, and during all these years the land would be mortgaged to the Government as security for the loan. The landlord would thus not only have to pay a sum which would be more than the annual assessment, but he would not be able to borrow money for agricultural operations with the same facility as before. In order to carry on under these conditions, he would have to lower his standard of living for a term of twenty years. The landholders might perhaps be induced to make this great sacrifice if there were a fear of oppressive assessment by the Government, but even the most extreme critics of the land revenue policy have never asserted that the Government are rack-renting them.

Another claim advanced on behalf of the scheme is that the cost of the revenue establishments would be largely decreased by the redemption of the land revenue. It is obvious that the reduction would be slight unless redemption was universal. The scheme could only be brought into force all over India by means of legislation making redemption compulsory, which is not within the range of practical politics.

It is unnecessary to examine the other advantages claimed for the scheme, but it is obvious that the possible assistance to industries is illusory. The total amount of money available for agricultural and industrial purposes would not be increased by any process of redemption unless the Government decided to issue notes or the landlords melted all their hoarded gold and gold ornaments and converted them into currency. Either of these processes would result in monetary inflation.

Buying out the zamindar or the intermediary.

99. It may be appropriate to notice here certain schemes of an opposite tendency which have been suggested in the case of zamindari areas. These schemes depend upon proposals that the Government should either buy out all the proprietary rights or those of intermediate holders between the landlord and the actual cultivator. It seems to the Committee that these schemes must fail, if for no other reason, by reason of the enormous financial operations involved. To buy out all the proprietary rights in the zamindari areas would involve the raising of an immense sum of money at a comparatively high rate of interest. It would be impossible to recover even the interest charge on this loan without levying from the actual cultivator, who would be left face to face with the Government, something in the nature of a full rack-rent, so that, as a result, neither the Government nor the actual cultivator would be better off than at present. It is therefore unnecessary to labour the other results, chiefly of a political nature, that would obviously be involved. The buying out of the intermediate holders would be an even more difficult financial operation. The interest on the amount so expended would have to be recovered through the rental, but if the landlord were to be placed in the position of the *malguzar* of the Central Provinces, and the land revenue were to be based on 50 per cent of the rental paid to him, it will be evident that he would secure half the profit on the transaction and that, if the Government were not to lose, it would be necessary in this case also for the tenant to pay a rack-rent.

The substitution of an export or produce tax.

100. The second set of schemes which have been placed before the Committee depend upon the substitution for part or the whole of the land revenue of a tax on produce, taken either at railway stations or at ports of export. These schemes are based on the assump-

tion that each farmer grows and keeps what is necessary for his subsistence and sells his surplus, the great bulk of which finds its way in due course to a local or foreign market by rail or sea. The fact, however, is that all farmers do not grow food crops, so that those who grow industrial crops *would have to purchase their necessities* out of the proceeds of the surplus which paid the tax. Nor does the whole of the surplus go to railway stations. Much of it is consumed in the locality after a cart journey, and the effect of the tax would be to substitute road traffic for railway traffic in many cases in which the railway is used at present. A more remote effect that would certainly follow would be the establishment of factories in the neighbourhood of the places of production so as to avoid payment of the tax, and this might prove in some cases to be a thoroughly uneconomic course. Moreover, a very large part of the production which travels by rail does not travel at once to its ultimate destination, but goes to an entrepôt where it is collected and perhaps subjected to some initial process of manufacture. Thus produce which was put on the rail more than once might *pay the tax several times over* and this fact, if the tax was persisted in, would cause a further disturbance of the course of trade. Ultimately the effect of all these causes would be to reduce the quantities of goods paying the tax, which would certainly necessitate increasing the rates in order to make up for the revenue lost. As the rates were increased, particularly in the case of exported goods, the demand would fall, and the profit of the cultivator *would decline. In the case of food grains the internal* price would fall and the industrial worker would benefit at the expense of the cultivator. In the ultimate result, the cultivator would suffer and land on the margin would go out of cultivation. It will at least be clear from this brief examination of the case that the proposals, in so far as their merit lies in imposing taxation on surplus, have nothing to commend them in comparison with the normal method of securing such taxation, namely, by including incomes from agriculture under the general scheme of income tax as they are included in every other country that levies that tax.

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It is unnecessary to examine the other advantages claimed for the scheme, but it is obvious that the possible assistance to industries is illusory. The total amount of money available for agricultural and industrial purposes would *not* be increased by any process of redemption unless the Government decided to issue notes or the landlords melted all their hoarded gold and gold ornaments and converted them into currency. Either of these processes would result in monetary inflation.

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101. The essential feature of the third set of schemes, which are in force in Australia, New Zealand and Japan, is that the assessment is based on the capital value of — Imposition of a tax on capital value.

land. It is claimed for this system, first, that it would be clearly intelligible even to the most ignorant ryot; secondly, that it would enable the legislature to fix the rate of tax according to its financial requirements; thirdly, that valuation and assessment would be two entirely separate processes, in other words, the settlement officer would not assess the tax as at present, but would simply perform the function of valuation; fourthly, that the valuation would be extremely useful in a number of other respects, as for instance in the case of land-acquisition or in the event of the imposition of a death duty. The objections to the scheme are, first, that capital value does not bear a constant relation to annual value, but varies with the general rate of interest. In the second place, although valuation has been a comparatively simple process in the Australasian colonies, it has been found a matter of extreme difficulty in European countries, and in India would undoubtedly be very expensive. In the third place, if equality of incidence is to be maintained, the valuation would have to be revised at much more frequent intervals than those at which districts are resettled, while at the same time it would obviously not be possible to introduce it completely until all the existing settlements ran out. In the fourth place, it is to be observed that, while in a ryotwari area there may be a single person to whom the whole capital value would be creditable in the case of sale, in areas where rents are controlled by tenancy legislation there may be two or more capital values of different beneficial interests in the land to be considered. Lastly, in order to determine capital values, the settlement officer would in many cases have to estimate the annual value, which is to some extent the basis of the assessment at present, so that the introduction of a scheme on Australasian lines would involve a greater change in the basis of assessment than is really necessary.

Committee's proposals—the desiderata in a new scheme.

102. Meanwhile, it seems to the Committee that it may be possible to arrive at a result that would be almost equally satisfactory with much less disturbance of existing conditions. Their proposals refer of course only to the temporary settlements, since the permanent settlement is outside their terms of reference. The essentials to be sought for in any new scheme of temporary settlement seem to be, first, that it should be definite as regards both the basis and the pitch of assessment; second, that it

should be as simple and cheap as possible, third, that it should, so far as possible, ease or steady the burden on the smallest cultivator, and fourth, that it should, in common with the rest of the system of taxation, have some element of progression in the case of the larger owners

103 The basis of assessment is defined under present arrangements in a variety of ways, as the net produce, the net assets, the economic rent, the rental value and the annual value Sometimes two or more of these mean the same thing, sometimes different meanings are attached in different places to one or the other It has been seen that the original settlements, which were based on a great variety of factors, such as crop and soil values, and the expenses of cultivation, have been replaced by resettlements, which are based mainly on prices and general economic factors In the carrying out of these resettlements, an increasing degree of importance has been given to annual value as ascertained by records of leases and sales and other similar factors This feature has perhaps reached the greatest degree of completeness in Bombay, where a most accurate record is kept of all leases, and these really form the basis of the new settlements What the Committee would recommend is that for the future the basis of the settlement should be annual value, by which term they mean the gross produce less cost of production, including the value of the labour actually expended by the farmer and his family on the holding, and the return for enterprise, and that the functions of the settlement officer should for the future be limited to the ascertainment of this value on a uniform basis under such conditions as might be most appropriate in each province The basis of assessment — annual value

104 There are two matters in connection with the determination of annual value to which the Committee think it desirable to refer Annual value in the case of controlled rents.

The first is the question of controlled rents. As has previously been mentioned, rents are in some cases controlled by tenancy laws, in others force of custom tends to limit the right of the landlord to exact a full economic rent, while in one province the rents of occupancy tenants are actually fixed by the settlement officer. In the case where rents are fixed by free bargain at arm's length, the settlement officer in determining annual value will be guided by the rent actually paid, but in the cases referred to above the rent will tend to be below the true annual value, or in other words a part of the annual value

will be vested in the tenants. To what extent this is the case the Committee have no knowledge, the working of the tenancy laws being a matter outside their purview. Theoretically, the proper course would be to determine the true annual value and to divide the charge between the landlord and tenant in proportion to the value of their respective interests. The Committee feel, however, that the adoption of such a course might involve administrative and other difficulties which it would be undesirable to create. They therefore recommend that, in the definition of annual value, it should be provided that, where the rent is fixed by the settlement officer or is limited by law or by custom having the force of law, such rent should be taken to be the annual value.

Nazaranas.

The second point is that of *nazaranas*. A *nazarana* is nothing more or less than a premium paid for a lease, and is just as much a part of the consideration as the rent. The Committee therefore consider that, so long as these *nazaranas* continue, their annual equivalent spread over the term of the lease should be added to the rent for the purpose of determining the annual value.

The rate of assessment.

105. As regards the rate, or, as the Joint Select Committee described it, the pitch of the assessment, the Committee find it almost impossible to make any recommendation in view of the absence of any definite information as to what percentage is taken of the annual value under present conditions. What they would contemplate is that there should be an expert enquiry in each province with a view to ascertaining what is the most general rate at present exacted. The local legislature would then be in a position to fix a common rate for the province. These rates would initially no doubt tend to conform to the existing pitch of the assessment. In future, it would be open to the legislatures to increase or decrease the general rate in accordance with the share they thought it fair should be contributed by the land revenue to the expenses of the State. From what they have read of the discussions of this matter by the legislative bodies, the Committee anticipate that the tendency would be, wherever financial considerations permitted, towards standardisation at a comparatively low rate, as in other countries. What that rate should be must depend mainly on the determination of the percentage at present taken. In so far as the materials before the Committee afford any indication, they point to a standard rate of not more than 25 per cent as desirable.

106. As regards the introduction of the scheme, it would be undesirable to make any change during the currency of existing settlements. It might be undesirable to do so even at the close. If, for instance, on a district falling in for settlement, it were found on a preliminary examination that the rates of the current settlement bore a proportion to the annual value in excess of, equal to or nearly equal to the rate fixed by the legislature for the time being, then it would be desirable to postpone resettlement in such a district until such time as the rise of prices had reduced the proportion materially below the standard fixed. If in any province it were found that financial circumstances permitted the fixing of a standard for the future somewhat below the present pitch of assessment, then the object desired by many of the critics of the present systems, namely, an extension of the present settlement, would automatically come about and bring with it a reduction of expense. Again, it might be found possible, where a district had once been settled at the standard rate and there was no material change in conditions other than in prices, to adopt a percentage increase on the existing valuations instead of going through the elaborate process of revaluation.

The process of introduction and term of settlement.

107. Meanwhile, the Committee anticipate that, as the share of taxation borne by the land revenue tends to decrease, there will be a concurrent, if not equal, tendency to take a larger share of the profits of the landholder in the shape of local taxation. As has been seen, such a tendency would be in accordance with those that have manifested themselves in most European countries. Taxation of this class would be much less unpopular than an increase of the land revenue, since it would be imposed for local purposes by local bodies, which would be largely composed of representatives of the landed interests. At the same time it is evident that, while the future development of the country will involve an enormous increase of expenditure, the services on which this money will be spent will be predominantly services in which the local bodies are interested. In these circumstances, it seems to the Committee to be only right that the standardisation of the land revenue should be accompanied by a moderate increase in the local rate. In the absence of any information as to what the standard rate of land revenue will be, it is difficult to suggest any limit to be imposed upon the rates, but roughly speaking it seems to the Committee that the maximum for the ordinary

The further taxation of land will be by local bodies.

rates should be somewhere about 25 per cent of the sum taken as land revenue. There would be no objection to the imposition over and above this of additional special and temporary rates for specific local purposes.

The case of the poorest cultivator.

108. It has been seen that, since the land revenue is a tax *in rem* levied at a flat rate, it would be impossible either to graduate it or to give exemption to particular lands because of the circumstances of the persons who cultivate them. It has also been seen that the difficulties of the poorest cultivator arise, not out of the land revenue itself, but out of a combination of circumstances of which the chief feature is a large extension of uneconomic holdings. The real relief of the poorest cultivator in these circumstances is to be found in a better system of rural economy generally rather than in a change of the land revenue system. In so far as it can be relieved by that means, the only measure possible is to standardise the rates at a comparatively low figure. The Committee have attempted to provide for this, and they believe that, inasmuch as the annual value of the smallest holdings is inconsiderable, the application of a rate of, say, 25 per cent is not likely to involve a heavy burden.

The case of the large holder.

109. As regards the large holder, it seems impossible, for the reasons just given above, to introduce an element of progression. The only countries which have adopted such a plan are some of the Australasian colonies where it was adopted with the object of breaking up large estates. While action on these lines is not needed in India, the Committee find from the report of the New Zealand Taxation Committee that even in that case a recommendation has been made for the abolition of progression. It seems in these circumstances that provision for this element must be found in some other part of the taxation system. The obvious ways of introducing it are through an income-tax on agricultural incomes, or through something in the nature of a succession duty, or both. The *pros* and *cons* of these taxes are considered in the appropriate chapters, and the question of the adjustment of the system of taxation as a whole so as to secure that the burden on the different classes shall be more nearly proportionate to their ability to pay will be considered in the chapter on the Order of Precedence.

Part II —Revenue from Non agricultural Land

110 Lands used for purposes other than agriculture may be divided into three classes according as they are (1) outside the limits of villages or towns, (2) within the limits of villages, and (3) within the limits of towns

Non agricultural lands *fall into three* classes

111 The practice in dealing with sites of factories and other lands put to industrial or similar uses outside the limits of villages or towns varies very greatly in different provinces according, largely, to the theories that are held of the land revenue In Burma, in areas in which a system of fluctuating assessments is in force, a share is taken on behalf of Government only when a crop is grown, and land built upon is treated as if it were fallow In the United Provinces, though the law provides for the charge of the usual agricultural assessment, it is only levied during the currency of the settlement, and the land is freed of any charge at the close In Madras, where there is no statutory provision for the assessment of land to land revenue, the demand by the State is made in virtue of the King's prerogative to collect a share of the produce It has been held that legally the share of the produce so taken cannot exceed the produce itself, and that produce must for historical reasons be regarded as agricultural produce Consequently the most that can be taken is the assessment fixed on the land as if it were being used for agricultural purposes In Bombay and the Central Provinces, there is a distinct provision in the law for the re assessment of land assessed to land revenue for agricultural purposes if it is converted to any other use, and a reasonable share of the annual value of the land used for purposes other than agriculture is taken

Factory sites and similar lands outside towns and villages

It seems to the Committee that the Bombay practice is unquestionably the sound one though care should be taken not to press the provision too far The matter is one which is likely to be of increasing importance as the industrialisation of the country proceeds The question of legislation in respect of the land revenue is now under consideration in all temporarily settled provinces, and the Committee would recommend that the opportunity be taken to introduce provisions on the lines of

the Bombay law that, whenever land which is assessed to land revenue on the basis of its crop value is diverted from use for cultivation, it should be liable to re-assessment on the basis of its annual value for other purposes.

House-sites in villages

112. The policy is almost equally variable in respect of house-sites in villages. To take first the case of the agriculturists. There is to be observed in this case a reversal of the state of affairs that might be expected, namely, that where land is let to a tenant, provision of a house-site should be part of the subject matter in respect of which rent is paid. In the *khas mahal* lands in Bihar, where the Government is undoubtedly the landlord, a rent is collected on the house-sites of the cultivators in the form of *moturpha*. In some of the ryotwari provinces, where the position of the Government as landlord is disputed, the Government undoubtedly performs this function of a landlord inasmuch as it gives the cultivators house-sites free of charge as an amenity covered by the payment of land revenue. This practice is not, however, universal. Homestead land in Assam is usually taken according to its class to be worth about 25 per cent more than the best arable land, down to the equivalent of the poorest agricultural land in the case of bare house-sites, and is assessed accordingly. In Lower Burma, the land revenue assessment of non-agricultural land is based on its possible agricultural value and not on its non-agricultural use. When culturable land is used for non-agricultural purposes during the currency of a settlement, it continues to be assessed at the rate that was assigned to it at the settlement. When a settlement is revised it is usual to assess non-agricultural land at the higher rates sanctioned under the new settlement for the agricultural lands in the vicinity.

The same difference of policy prevails, with one exception, in the case of other residents in villages. These people may be divided into two classes, namely, (i) hereditary village artisans, the granting of free house-sites to whom may be regarded as an extension of the amenity given by the Government as landlord to agriculturists; (ii) the money-lenders, traders and other inhabitants of the villages, who likewise benefit when no levy is made by the amenity granted to the agriculturist, though, as members of a class which contributes little towards the general expenses of the State, they are in

no way entitled to do so The instance in which this case differs from that of the agriculturist is that of Bombay, where there is provision for the levy of assessment, but owing to the practical difficulties of discriminating the agriculturist from the traders, the law has not been enforced since the year 1886

A further point to be noted in this connection is that in the ryotwari areas of the Central Provinces these sites are not transferable, so that no saleable title can be acquired, and in Madras since 1900 a provision has been entered in the grants of this type declaring the grant subject to cancellation or levy of ground rent if at any subsequent time the village is converted into a town

In spite of the inconsistency that is apparent in the policies pursued, the Committee do not recommend any change in respect of the treatment of agriculturists or village artisans They contemplate the possibility, as the villages grow, of something in the nature of a house tax being levied by village panchayats, but that is a very different matter to the imposition of anything in the nature of State taxation, which would be indistinguishable in its effects from an addition to the land revenue In the case of the non-agriculturists also, it seems to them undesirable to attempt to discriminate, for the reasons which led to the abandonment of this tax in Bombay At the same time, in this case they think it desirable to observe that the fact that these people enjoy an amenity to which they are not entitled offers a good ground for the imposition on them of taxation in some other form, of which the most appropriate seems to be a local tax of the nature of a license or profession tax In all cases, the Committee would recommend, where it is not in force, the adoption of a practice similar to that which has been mentioned in the case of Madras, under which new grants of lands of the class in question are made subject to the levy of ground rent if and when the village becomes a town

113. The case of lands in towns is similar, but far more complex. They may be distinguished into four separate subdivisions as follows — Town lands fall into four classes.

(1) Lands which were in private possession and subject to no taxation at the time when the towns came under British rule, and lands

which were revenue-free as old village-site and subsequently included in towns.

(2) Lands which have been given by the British Government on freehold tenure or other tenure of a permanent or semi-permanent nature.

(3) Lands in towns of comparatively recent growth which were subject to agricultural assessment when they were brought within the town limits.

(4) Lands in which the Government still possess a title or part title and which have been given out under conditions similar to leasehold tenure.

Those that are free of provincial taxation.

As regards the first of these classes, there is little to be said except this: that building-site lands in towns represent a form of property which has in many cases increased very largely in value, especially in recent years, and that this is a form of property which pays a very small share of its return to the State. While, however, this is a point to be borne in mind, it does not appear to the Committee that it would be practicable at the present day to impose anything in the shape of a provincial tax.

— or practically so.

The second case includes such cases as the quit-rent lands in Madras, and quit-rent, "foras", and "pension and tax" lands in Bombay. These cases are in a great measure similar to the former. There is no doubt that, in respect of many of them, the Government have made bad bargains in the past. It is too late to remedy these, but the fact remains that here again is a class of property that pays a comparatively small share of its return to the State.

Those that still pay agricultural assessment.

The case of lands in towns that still pay agricultural assessment is in some respects similar to that of factory sites outside the building area, in respect of which it has been recommended that there should be adopted generally a law on the lines of that in force in Bombay and the Central Provinces under which, on conversion of a land from the use in respect of which it has been assessed, it becomes liable to revision of assessment. The assessment of the lands in question is already liable to revision, but in view of the legal opinion above quoted in the case

of Madras, such revision can in some provinces only be made with reference to agricultural conditions If the law is changed, it will be possible to make a revision with reference to the annual value instead Whether and to what extent it will be desirable to do so will depend on local circumstances such as the period of time that has elapsed since inclusion of the lands within town limits the extent of the rise in values and the extent to which amortisation has taken place But provided due notice is given, there seems to the Committee to be no reason why the change should not be introduced tentatively and by degrees as periods of settlement expire

114 The last class is by far the most important and includes *khas mahal* lands in towns in permanently settled areas, large areas of what are known as *nazul* lands in Northern and Central India and those that are dealt with under the ground rent rules elsewhere The case of the *khas mahal* lands in towns has recently been the subject of an enquiry in Bengal which has revealed a very considerable loss of revenue through the practice of leasing at customary rents and otherwise For instance, in the Orphanganj Market in Calcutta, the lease amounts were calculated to return 4 per cent of the cost of the building and nothing at all on the value of the land, which is estimated at 85 thousand rupees a year This matter is now being set right and a more up to date practice of leasing adopted State lands in Upper Burma have already been dealt with on this principle and the Government acts like any other prudent landlord In the *case of nazul lands in the United Provinces, the municipal* bodies collect the tax and are permitted to keep the proceeds, in the Central Provinces the lands are managed by the local revenue officers, but the bulk of the proceeds is made over to the municipal bodies It seems doubtful whether under the former practice a full return is secured, and it is desirable in these circumstances to consider the procedure adopted under the orders of the Government of India issued in and after 1895 in the case of ground rents which will now be described

Those in respect of which the Government acts as a landlord

115 The ground rent lands for instance in Madras, though they were generally assigned on a rent, were prior to 1895 settled by settlement officers on principles assimilated to those governing the settlements of agricultural lands, but there was no uniform plan adopted in assessing them, and in many cases they were assessed on far less

The ground rent policy Orders of the Government of India.

than the annual value. In that year the Government of India issued orders from which the following is an extract:—

"The objects which these principles should secure are three-fold: first, that the grantees should in all cases acquire such security of tenure as to afford a sufficient inducement for the expenditure of capital in building and improvement; secondly, that the source of revenue should in no case be permanently alienated, but that a rent should in all cases be fixed, subject to periodical revision; and thirdly, that the amount of rent to be taken at each revision should be subject to such limitations as may be necessary to secure the grantee in his property.

"The Government of India leave it to Local Governments and Administrations to decide whether sites should be sold, or leased, or granted on a permanent occupancy right. But if they are leased, the lease should not ordinarily be for a shorter period than thirty years, and should in all cases provide for renewals up to a minimum period of ninety years, if not in perpetuity.

"Ground rent should in all cases be fixed. It should not ordinarily exceed 33 per cent of the letting value of the site, or be less than the highest rate at which land revenue is assessed on lands in the neighbourhood. It should be subject to revision not less frequently or, if the grant is in perpetuity, at intervals not longer, than thirty years; and at each revision the above limitations should apply."*

These principles were to be applied, not only to new grants, but also to all renewals of existing leases that might fall in. In a subsequent letter† to the Government of Bombay, the Government of India explained that it was not their intention that any part of the full value of such lands should be foregone. They agreed with the view of the Government of Bombay that, in towns where there was a keen demand for building land and sites, the

* Resolution of the Government of India, Department of Revenue and Agriculture, No. 21-223-12, dated 7th October 1895.

† Letter to the Government of Bombay, No. 1504, dated 7th July 1897. published as Appendix J in the Bengal Government Estates Manual, 1919.

restriction of the ground rent to one-third of the full competitive rent was inapplicable, and, if adopted, should be accompanied by provisions requiring an initial payment to be made by the grantee for the remainder of the value. These principles have been adopted in most of the provinces In Madras standard scales of ground rent have been fixed, and when any land has to be disposed of, such one of these scales as may be appropriate is applied to the plot, which is then sold by auction subject to that rent. The ground rent is subject to revision at resettlement The Bombay procedure is more or less similar, and land at the disposal of Government is usually sold by auction subject to a standard rate of assessment, which is revised every fifty years When the rate is revised, however, the Government take only half the increased value and leave the other half to the owner In the Punjab, the lands are sold subject to an annual payment, which s periodically revised In some cases, the value is estimated at that portion of the net rent which exceeds a fair remuneration for the capital invested in building the house In others the original price of the land is compared with the selling price of land in the neighbourhood and the ground rent is then enhanced by two, three or four per cent of the increased value so gauged In the case of new towns, the first assessment of ground rent is fixed for five years after sale, and subsequent assessments are made at intervals of ten years. In the urban areas of the Canal Colonies, a different system is followed, and the charge is intermediate between the agricultural and the ground rent rate The urban areas are divided into three groups, (a) intra-mural sites, (b) extra-mural sites for factories, and (c) extra-mural sites for bungalows The intra-mural sites are again subdivided into several classes, and appropriate rates are fixed for each class, sites for shops in *mandis* and main streets being charged the highest rate, while the menials' quarters pay the lowest These rates are liable to revision at each resettlement.

116. Another feature deserving of notice in relation to these collections is the tendency to hand over the whole or a large part of them to the local body concerned Where development schemes are in progress and there are Government lands within the areas under development, it is a common practice to assist the scheme by making over the whole or part of the Government's

The proceeds are commonly made over to municipalities

title to the lands to the Development Trust. Similarly, as has been seen, in the United Provinces the whole management of *nazul* lands and three-fourths of the proceeds of the same are made over to the municipal councils. A similar practice obtains in the Central Provinces, where the municipalities are credited with four-fifths of the return. In the Canal Colonies of the Punjab, half of the corresponding income is made over to them. In Madras, they are credited with an amount equivalent to the difference between the amount collected and an assumed rate of land revenué. All these proceedings embody a recognition of the fact that the increased return from the land is partly due to the amenities provided by the municipalities. These tendencies seem to the Committee to be in the right direction, and they recommend that the practice of making over a substantial fraction of the proceeds to the municipal bodies should be generally adopted. At the same time, it seems to them undesirable that there should be made over with them the management of the lands, which seems to be much better left in the hands of the revenue authorities.

Proposals for the taxation of unearned increment.

117. It remains to mention a proposal that has been pressed in several quarters, namely, for the taxation of the unearned increment in land values in towns. This is a species of property which is especially suitable for taxation, and a rough attempt to measure and levy toll on such increment has been successfully introduced in Germany. A more ambitious measure introduced in England was not successful and was withdrawn.

Four principal cases may be distinguished—

(1) The attempt may be made to impose the tax generally on increments that have already accrued since some fixed date in the past;

(2) the endeavour may be to tax past increments in so far as they have accrued to particular persons who may realise them in future;

(3) arrangements may be made to tax future increments generally; and

(4) arrangements may be made to tax future increments in particular cases, especially those in which they are due to some new development.

The first of these courses tends to be both impracticable and unfair. Not only is it extremely difficult to ascertain the value of land at a given past date, but in so far as property has changed hands since the date fixed, the increment may have been amortised, and consequently it is unfair to impose taxation on the present holder.

The second plan is more or less akin to that adopted in Germany, but in that case no attempt is made to separate the value of the site from that of the building, and it is therefore not a true tax on increment of land value. In India a special stamp duty has been imposed in some towns on all transfers. While this affects the case in which there has been a loss as well as that in which there has been an increment, the fact that the duty was imposed at a time of rising prices tended to enable the municipalities to secure a small measure of taxation on the unearned increment.

The third plan can only be applied if there is made an accurate valuation of all land in the towns concerned. This was the plan adopted in England under the Finance (1909-10) Act, 1910, which broke down owing to the complicated provisions for separating the value of the site from that of buildings and other improvements. In these circumstances, it is recommended that in India no attempt should be made to eliminate the value due to past improvements, but that an account should be maintained of improvements effected in the future, and that the value attributable to such improvements should be deducted from the value on the occasion on which the increment duty is levied. These processes require the services of expert valuers, and can only be recommended to large towns with highly competent staffs, but given that condition, the scheme does not appear to be impracticable in India. In the case of new extensions or of towns in which a large amount of new building is taking place, the process is simpler and can more readily be applied.

The fourth scheme is applicable where a Government or local body is creating new values in lands in towns by town extension or other developments. In these cases it is comparatively easy to ascertain the values of the premises affected before and after the developments, and Acts have already been passed providing for the levy of betterment taxation by local bodies. These will be discussed in the chapter on Local Taxation.

CHAPTER V.—THE CHARGE FOR WATER.

The instructions to the Committee.

118. The instructions to the Committee direct them to include in the enquiry they are to make into the question of the land revenue the cognate question of water-rates, which term they understand to include all the charges of various kinds that are made for water for purposes of irrigation. They have already declared their inability to agree as to whether these charges include any element of taxation. And they find the subject involved in such a diversity of conditions, opinions and practice that it is exceedingly difficult to set these out clearly in any comparatively brief statement.

The practice of other countries.

119. The subject is one in respect of which, so far as its taxation aspect is concerned, there is no great amount of help to be gained from the practice of other countries. From Italy, France and Spain, there is much to be learnt, when India is ready to learn it, in regard to the subject of purchase of water by module and distribution to farmers by means of co-operative irrigation societies. But the Committee have not been able to discover how far any element of taxation enters into these arrangements. The main irrigation works are possessed in some cases by companies, in others by the Governments. The former no doubt make some commercial profit and, so far as the Committee are aware, the Governments do the same, and irrigation becomes, from the farmers' point of view, an element in the expenses of cultivation. In addition to this, the Governments collect income and schedular taxes from them, based on the profits of farming which the water helps to create.

In America, the chief feature of the systems, so far as the Committee have been able to ascertain, lies in the assistance given by legislation to the establishment of companies, which are enabled to raise money by the issue of bonds for the construction of irrigation works and to collect the interest on the bonds by compulsory charges on the lands affected by such works. The Government do not enter into the matter further than by giving legislative assistance.

In Egypt, as in some parts of India, there is no cultivation without irrigation, and there is no separate water-rate The payment of land tax confers the right to a supply of water and imposes on the Government the obligation to make that supply available According to Strange's 'Irrigation, Roads and Buildings', the irrigation rate in America amounts generally to from one-fifth to one-sixth of the value of the crop, in Egypt to one-seventh and in India to one-tenth

120 To turn next to the case of India The great variety in conditions, opinions and practice has been referred to, and may now be examined in more detail The chief of the conditions in respect of which variations occur are conditions of rainfall, conditions arising out of the configuration of the country, conditions of tenure, and conditions of crops — The variety of conditions in India

The rainfall varies from 461 inches to about one-hundredth part of that figure The results are seen at the one extreme in areas in which a crop can hardly be grown on account of excess of water, at the other in areas in which nothing can be grown without irrigation Between these extremes every variety of case is to be found, swamp land that will grow rice unfailingly without the aid of irrigation at all, rice land where the rainfall requires to be supplemented occasionally, land that will grow wheat without irrigation in a normal year, but requires supplementary irrigation in occasional years, and land that will yield a good crop with regular irrigation and nothing without These considerations affect the value of the water, which in some cases can convert an arid desert into a smiling plain, while in others it is really needed only in years of scarcity — rainfall

Conditions arising out of the configuration of the country have relation chiefly to the opposite aspect of the question, namely, the cost of supplying the water. In some cases the rivers flood the fields through the action of nature In others they can be made to do so by flood canals which simply tap a passing supply In others headworks are necessary, but the levels of the land still render the construction of distributaries and branch channels a cheap proposition Where the country is more cut up, both headworks and distributaries are apt to increase in cost And in the cases where there are no rivers, reliance has to be placed on reservoirs, which are more or less expensive or — configuration of the land.

precarious as circumstances dictate. Another set of considerations arises out of the possibilities of an alternative supply. Where the level of the subsoil water is high, it can be easily tapped. In other cases, it is not possible to tap it at all and surface works form the only means of irrigation.

— tenures. The conditions of tenure vary from the case in which the Government render water available to the proprietors of permanently-settled estates to the case in which they lease land commanded by irrigation to members of a depressed class. In the first case, the person who benefits by the expenditure of the capital of the general taxpayer is already enjoying a large unearned increment from his land, and there is no reason why that should be added to by giving him the means of increasing the productivity of it for anything less than the value of those means to the recipient. At the other extreme, the object in view is to induce a man who is not actually a cultivator to settle on the land and learn to make a profit out of it; and pending his doing so, a charge for the water that is equivalent to what it costs the Government, or even less, is commonly considered to be justifiable. Difficulties of tenure are increased where there is a tenant as well as a landlord to be dealt with, more particularly if the land revenue is based upon a controlled rent.

— crops. The nature of the crops grown exercises a great influence over the charge per acre. A crop such as sugarcane may require a constant supply of water running into two seasons. Some varieties of rice require enough to make a swamp, others much less. Wheat needs regular watering, gram takes less, and so on. It is obvious that, so long as there is no system of measurement, if a fair charge is to be arrived at, it is necessary to qualify the rate per acre by reference to the nature of the crop grown.

The different policies advocated. 121. It is not to be wondered at that, where such widely varying conditions prevail, opinions as to what is the proper charge should show variations equally wide. At the one extreme are those who argue that the supply of water is a service which the State ought to perform for its members, and that the charge should be limited to the actual cost price. Such a policy seems to involve a *reductio ad absurdum*. Under it, if it cost nothing to run the water on to the land, no charge would be made,

and as time went on and the easier schemes were completed and those in the less favourably situated areas were taken in hand, the charge for water would rise, often inversely to the benefit derived. Nor does it appear to the Committee to be any answer to this argument to say that the State should not discount the favours of nature. That idea would strike at the root of any land revenue policy based on the varying productivity of the soil. At the other extreme, it is contended that an irrigation work benefits only a section of the community, that the capital out of which it is constructed belongs to the general tax payer and that the State is bound to employ this to the best advantage and to take on his behalf so much of the added return from the land as will just leave the party using the water a sufficient inducement to convert his land from dry to wet. Between these extreme points of view there are many variations, most of them due to particular variants of the conditions of rainfall, nature of the works' tenure and crops that have been described above. It will be convenient to examine these in discussing the practices to which they are related.

The different practices adopted

122. The practice in charging for water not only varies from province to province, but frequently shows variations within the limits of a single province. For a clear comprehension of it, a complete study of the irrigation systems of different provinces and the conditions under which the charges have grown up would be necessary. The following is a very imperfect attempt to bring similar practices together into classes.

Protective works

123. It will be well in the first place to deal with the broad and generally recognised distinction between protective and productive works. The former are works constructed with the knowledge that they are not likely to pay their way, purely as a preventive of the evils of famine. By their very nature they are not expected to bring in a full return on their capital cost, though indirectly they may do so by avoiding expenditure of a more wasteful kind on measures of famine relief. But it should also be clear that, in the words of the Indian Irrigation Commission of 1901-1903, "apart from the question of famine protection there is no reason why the State should accept a permanent charge on the revenue for the sake of increasing the productiveness of land belonging to private owners."*

* Report of the Indian Irrigation Commission 1901-03, paragraph 99.

This being the case, it is clear that the only consideration in fixing the charge for water from such works is what the parties are able to pay; in other words, the rates should be periodically examined with reference to prices and other conditions, and if it is found that the return from the land is sufficient to enable the cultivators to pay more than they have been paying for the water, the rates should be raised. The Committee lay some stress on this point because they have reason to believe that there are cases in which cultivators under protective works can well afford to pay more than they are paying at present.

Productive works.

124. To come now to the more general case of productive works. The rates charged may be divided into two classes, those charged on the actual cultivator, and those charged on the owner of the land, whether he is the cultivator or not.

The rate charged on the occupier.

The rates charged on the cultivator are—

(1) A consolidated wet rate charged on the settlement principle of taking a share of the produce of the land and water together.

(2) A consolidated wet rate charged on the same plan, but subject to the additional principle that the Government are entitled, on the ground of their guaranteeing the supply of water, to take a larger share of the produce in the case of land so guaranteed than they take in the case of ordinary dry land.

(3) A consolidated rate charged in Sind, where the yield of land and water are treated together because without irrigation there could be no cultivation at all.

(4) A differential rate based on the excess over the dry rate, to which a particular piece of land is assessed, of the corresponding wet rate in the same village.

(5) A fixed rate, varying generally with the nature of the irrigation work and the nature of the crop grown, and charged by agreement whether the land commanded is cultivated or not.

(6) A fixed rate based on similar principles, but charged only on the area actually cultivated in the year.

The rates charged on owners are much less developed, but the following may be noted as indications of a tendency to add a charge on the owner for the added value given to his land to that on the occupier for the service rendered to his crop:— — and on the owner.

(1) A fixed charge of Rs. 25 per acre in the Kistna delta in Madras for the privilege of inclusion in the guaranteed area.
(2) The owner's rate in the United Provinces charged under section 37 of the Northern India Canal and Drainage Act, 1873.
(3) The water or canal advantage rate sometimes levied in the Punjab.
(4) There is also a proposal for the introduction by law of a cess on the owners of irrigated lands in the Deccan districts of Bombay.

Occupiers' rates—the consolidated rate in Madras

125. The consolidated rate is the plan under which 70 per cent of the irrigation revenue of the Madras Presidency is collected. It may be doubted whether even theoretically this system is sound. It is based on principles of land revenue settlement and the half-net theory, the idea being that, just as the State share of a dry crop is half the net, so where the State provides water as well as land, it is entitled to take the same proportion. This idea seems to ignore two important differences between the two. In the first place the water is supplied to wet land at the expense of the general tax-payer, while in the case of dry land the Government incur no expense of any sort. Again, the return of the cultivator of the dry land is precarious. It is true that the assessment is based on an average, but that frequently does not help the cultivator. He has not the forethought to save out of the return of a good season against the chance of a bad one. The return to the cultivator of the wet land is guaranteed, and the guarantee involves remission, if he is unable to gather a crop. Consequently there would be inequality between the two cases, even if half the net were taken. Actually, however, what is taken seems to be nearer a quarter than half the net. It has been suggested in the previous chapter that the Governments would be well advised to standardise the return from the land at or near this comparatively low rate. But the considerations that apply to the standardisation of the taxation of real property do not apply to the payment for services rendered, which forms a large element of the charge for water. If it is agreed

that one consideration at least in determining the payment for such a charge is the value of such a service, in other words, that one of the important factors to be taken into consideration is the price at which the crop can be sold, then it is clear that, under the conditions under which the land revenue is collected at present, the consolidation with it of the charge for water is no longer appropriate. It is obviously out of the question to make a change during the currency of a settlement. There may be a difficulty in ever doing so in the case of old works. But in the case of all new works at least, the Committee would recommend that this system of levying the charge should be abandoned.

— in Burma. 126. In the cases in Burma in which a consolidated rate is charged, allowance is made for taking a larger proportion of the return in the case of wet land than in the case of dry. This is an appropriate recognition of the fact that the return in the case of wet land is guaranteed. In other respects the criticisms made on the Madras system apply. A further criticism applicable to this system arises from the fact that it is coupled with the system of fluctuating assessment, in other words complete remission for land that is left fallow, which involves, as in the case of the Punjab, a very large amount of inspection and calculation. It seems to the Committee that in both cases it is legitimate to apply the theory that land as the chief element of production is ultimately the property of the community, and that it is the duty of the particular persons to whom it is assigned to use it as a means of production, in so far that they may well be charged the revenue due whenever cultivation is possible, whether they choose to grow a crop or not. This consideration is of course only applicable to developed areas and in cases where the full amount of water required can be guaranteed. Where an area is under development, it may of course be necessary temporarily to encourage cultivation by a concession of the kind.

— in Sind. 127. In the case of Sind, where, as in Egypt, the land will practically yield nothing without the application of water, it is *prima facie* logical to take a combined charge and to credit nine-tenths of this to the irrigation account, but having done this, it appears to the Committee to be the reverse of logical to apply to the nine-tenths regulations which are properly applicable only to the one-tenth, such as the long-term settlement and the limitation of increase.

To quote the remark of Mr Padshah, made as a Member of the Sugar Committee, "when irrigated crops rise in value the owner of water has as much right to a share in the increase as the owner of land".* Moreover, while prices tend to vary, as they have of late years, in an upward direction, the cost of maintenance of irrigation works varies with them. When therefore both the cost of supplying the water and the return to be secured by its use are thus liable to variation, it does not seem desirable to fix the charges that pay for it for too long a period of time, for, whatever may be the opinion held as to the nature of the claim of the Government to a share in the unaided yield of the land, their claim to an adequate return for the water provided is incontestable. These arguments apply with even greater force to the limitation of increases at settlement to 33 per cent. This may be a desirable provision in the case of a charge which is partly at least in the nature of a rent charge fixed for a generation, but considerations which apply to a charge of that nature have no application to a charge for service rendered, which should be revised at fairly frequent intervals with reference to the cost of rendering the service and the value of the same.

128. The differential water-rate is another Madras plan which has been proved after long experience to be unsound in theory and exceedingly clumsy to work in practice. The theory is based on the assumption that where there are in a village a series of *tarams* or rates of assessment for wet land, and another series of *tarams* for dry, the difference between the rate of the first *taram* wet and the first *taram* dry will give an equitable measure of the addition to be made to the dry assessment, if the dry land is cultivated with a wet crop, and similarly with the others. This assumption disregards the fact that the wet *taram* may be for soil of one class and the dry *taram* for soil of quite a different class. Even if this is not the case and similar soils are involved, there remains the fact that soils of different classes do not react to irrigation in the same proportion. Practically the system is difficult of application, since it involves a more or less elaborate calculation in every case, and even if it were equitable in theory, it would be bad in practice so long as it was not possible to explain to the ryot in a few words what was the rate of charge and how it was arrived at. The differential rate

* Report of the Indian Sugar Committee, 1920, page 441

Agreement rates.

120. Agreement rates arise normally under two opposite sets of conditions. In the one case, as in the Deccan districts of Bombay, there is a very large demand for water by enterprising cultivators, who wish to cultivate valuable crops. The rates are revised every six years and it is understood that the fixation of them is somewhat in the nature of a contract, in the determination of which the amount the cultivators are prepared to pay is taken into consideration. Accordingly very high rates, amounting to Rs. 45 in the case of sugarcane, are settled. The opposite case is that in which the rainfall is normally sufficient to raise a crop, though one or two waterings may improve it. In this case, the advantage in securing terms for regular supply is not only on the part of the cultivator, but also on that of the Government, which as a consequence of a guaranteed payment, secures a measure of insurance on the works and so is enabled to reduce the expenditure on distributaries. This system has been very logically worked out in the Central Provinces where cultivators who agree to take water for a term of years, whether they require it or not, are charged at a lower rate than that charged to those who take water only when there is a shortage of rainfall. Under a recent amendment of the law, provision has been made by which a four-fifths majority of the cultivators of a village can enforce the system of agreement upon all the owners of lands under a particular work in the village. In the United Provinces the demand is similarly unstable, but for a different reason. In the Central Provinces, there is no sub-soil supply and reservoirs which will catch the surface water are needed as an insurance against a deficiency in famine years. The conditions of the United Provinces are peculiar. The distribution of the rainfall is such that in some areas the ryots can normally raise a crop without watering, though one or two waterings might improve it, while further away from the mountain ranges the necessity for irrigation becomes greater. Similarly in regard to the level of the sub-soil water, which can be tapped with greater facility in the areas nearer the hills. Consequently, the demand is very intermittent and the works which have been constructed can supply only 45 per cent of the area commanded. The demand is thus very variable and the suply difficult to regulate. It would appear that something in the nature of a tacit agreement has been entered into in so far as large areas of lands have been classified as *nahri* or wet, that is to say, they pay a higher

rate of land revenue on the presumption that they use irrigation, but there does not appear to be anything corresponding to the agreement rates in the guaranteed areas of other provinces

In Madras also there is a regular agreement in some cases, such as those of the zamindari lands which are included in the guaranteed area under the major irrigation works, and are known under the name of '*bapat* wet', and there is a tacit agreement in others, as where lands under a project are charged dry rate *plus* water-rate instead of being converted into wet This latter case deserves special notice as illustrating the impracticability of continuing the system of the consolidated wet rate as the main system of the Presidency Under present conditions, the return for water which can be collected under that system is so low that it frequently will not pay the interest on capital cost and the cost of maintenance of the works Consequently, in order to cover these charges, there is imposed a water-rate which is in some cases twice as high as that charged under the older works, but which is a rate which the ryots concerned are both able and willing to meet.

130 In the remaining case, that is, where there is no agreement express or implied on the side of the Government to supply water or on that of the ryot to pay for it whether he needs it or not, it is usual to require applications to be made for permission to take water and to charge what is known in some provinces as an 'occasional', in others as a 'demand' rate. In the Central Provinces, where the agreement is largely to the advantage of the Government, the occasional rate is considerably higher than the agreement rate. Elsewhere it is generally charged at the same figure, but where water is taken without permission, heavy penalties are added. It is obviously desirable, in view of the amount of work and opportunities for harassment and corruption which the dealing with these annual applications involves, that the area of guaranteed irrigation should be extended as far as possible and the field of occasional rates reduced to a minimum. Occasional rates

131. The charge of the rate on the owner may be briefly explained. The Government, by making irrigation available to a particular piece of land, especially if it guarantees to continue to do so, gives a potential increase Owners' rates

both to the annual and to the capital value of the land. There would of course be no actual increase in the latter if the whole of the increase in the annual value were taken in the shape of payment for water. But in actual practice what is taken is generally quite a small fraction of this increase. Consequently, the result of the action of the Government in guaranteeing the supply of water is to give a large unearned increment to the owner of the land, whether he is a cultivator or a rent-receiver, and it is a generally accepted theory of taxation that there is no source of income from which a considerable share may be taken for purposes of the State so appropriately as from an unearned increment or windfall of this kind, especially when it arises from the action of the State. This is a theory which has been accepted with remarkable unanimity by a large majority of the witnesses who were examined on the subject, but as has been stated above, the application of it in practice has hitherto been on a very limited scale.

— the inclusion fee in Madras.

132. The case given in Madras is an isolated one. It deals with a guaranteed area in which very large irrigation works are in operation and it was found possible to include in it certain pieces of land which had not previously been entitled to a guarantee. The privilege was most eagerly sought after, and accordingly a fee of Rs. 25 per acre, which was a small fraction of the value of the privilege, was charged under the name of 'inclusion fee'. It is understood that the possibility of recovering a part of the capital cost of the Mettur project from the ryots, whose land will come newly under irrigation, through means of a similar fee, has been considered.

— the owner's rate in the United Provinces.

133. The owner's rate in the United Provinces is evidence of a much more definite and long-standing acceptance of the principle. Under present conditions, an owner's rate can be levied on land which has never been irrigated, but is newly brought under irrigation during the currency of a settlement, during which period the owner is enabled to recover a part from the cultivator. At the resettlement the owner's rate is absorbed in the land revenue by classifying the land as *nahri* or wet, and both the controlled rent and the land revenue are increased. The actual collections in the shape of owner's rate are small because well cultivation is so abundant that only one-tenth of the land newly brought under irrigation actually pays the rate.

134 The canal or water advantage rate in the Punjab is a similar charge interposed between the *malikana*, or seigniorage levied by the State as owner of the land, and the *abiana*, or occupier's rate The matter is of less importance in this province because of the great prevalence of owner-occupiers and it is understood that, though rates of this kind continue under some of the older systems, they have not been imposed in the more recent cases

—the water advantage rate in the Punjab

135. The only other case in which the Committee have observed a tendency to make a charge on the owners as well as on the occupiers is that of the Deccan districts of Bombay, in respect of which a Bill is under consideration to levy a cess on the owner, on account of the very large unearned increment which irrigation gives to him The owners of lands commanded by works which were originally built as famine works, and which had in the first instance extraordinarily little value, have found themselves in a position to give up cultivation in view of the large rentals which they are able to command from enterprising cultivators over and above the water-rate which these pay to the Government, and it seems to be only legitimate that a share of this unearned increment obtained at the expense of the general taxpayer should go into the coffers of the State

The proposed cess in Bombay

136 It remains to consider the actual rates charged In this connection two important points have to be determined, the basis on which the rate should be fixed and the period for which it should be current

The points to be considered in determining the rates

As regards the first point, a number of bases have been suggested such as cost, quantity, value or net profits, rents and prices Cost is of importance only from one point of view, namely, fixing the minimum Clearly, except under a protective work, water should not be supplied at a rate which does not cover the interest on the capital cost and the cost of maintenance of the work, but subject to this provision, the particular individual who receives the water is not entitled to any special advantage because it happens to be comparatively cheap to supply it to the particular area in which his land is situated A charge by quantity is of course ideal, especially in a country like India where the full duty of water is so seldom obtained, but so far it has been found possible to levy such a charge only in the case of one or

two large holders in the Punjab, who take fixed quantities for areas within a ring fence. An approximation to charge by quantity, however, is made in the Canal Colonies where the land is divided into squares and the outlets from the canals are so arranged as to give for fixed periods quantities sufficient for the watering on each square of a normal rotation of crops. Combined with this is a charge by area and by the nature of the crop. The value or net profits will of course have to be taken into consideration, but this can only be done in a general way. Rents would not be a suitable basis since that would involve basing the charge on a standard rental for a particular class of soil without reference to the crop grown. The remaining alternative is that of prices, which afford a general indication of values. On this subject, the Committee agree with the recommendation of the Irrigation Rates Committee of the United Provinces that prices can well be utilised to determine variations in rates. In other words, what is recommended is a combination of area, crop and prices as the basis of the determination of the rate. Another consideration, particularly in areas irrigated by tanks, is the nature of the source of supply. This may be more or less secure or precarious as the case may be, and since it is undesirable to vary the charge with the crop raised in each case, the alternative presents itself of charging an all-round lower rate where the chance of a full crop is less.

These conclusions are not dissimilar to those which have been announced from time to time by the Government of India. As long ago as 1880 they laid down "that the full value of the canal water should be recovered for the general tax-payer, by whom the capital is provided, so far as this can be done without prejudice to the interests of the landlords or those who use the water". In 1904 they wrote: "The introduction into a tract of irrigation at the expense of the State increases the produce of cultivation, and the Government as representing the tax-payer is entitled to a portion of that increase, (1) as the owner of the water which it has brought to the fields at great cost and then sells to the cultivators, and (2) as the sovereign landlord, entitled as such to an enhancement of land revenue in proportion to the enhancement in the proprietary share of the produce. The fixing of the price for the water is of the nature of a commercial transaction and should be regulated mainly by the price the cultivator

is willing to pay for it." In 1922 they reiterated the statement that "the declared policy of the past has always been that the full value of the water distributed by Government works should be recovered for the tax-payer, by whom the capital is provided, so far as is consistent with the maintenance of the demand for water", and at the same time called attention to a resolution passed by the Board of Agriculture at Pusa in 1919 as follows. "The maximum charges for irrigation water should be reconsidered in connection with all irrigation schemes, in view of the new level in prices" The Committee have received a large body of evidence from official witnesses that the existing rates are too low in most parts of India It is hardly necessary to add that Government rates are much lower than those charged by private owners.

The period for which rates should remain in force

137 Meanwhile, as regards the term for which the rate is to be fixed, it will be obvious that, in the case of the consolidated rate, it is not possible to make a change except at the close of a settlement This is a very serious consideration when, as has been the case in one province, the cost of maintenance of the works may increase by as much as 80 per cent in twenty years Elsewhere there appears to be a conspicuous lack of policy and a disinclination to make changes, which has repeatedly attracted the notice of the Government of India For instance, in 1864 they requested the Government of the North-Western Provinces to "watch for opportunities for gradually raising the charge for water in accordance with the increasing value of water, a principle which should be applicable to all provinces". Again in 1893 they brought to the notice of the Government of Madras the fact that the rates on the Kistna and Godavari canals had not been enhanced for thirty years notwithstanding the large increase in prices during the period, and the Government of Madras made an addition, under pressure, of 25 per cent, with the result that they added 10 lakhs to the revenue of the Government. Another 30 years have since elapsed and the rates still remain at the figure of Rs. 5 per acre for paddy, which was fixed in 1895, a circumstance which has the result, among others, of making the charge less on the holder of permanently-settled estates under these works than it is on land under temporary settlement immediately adjacent. The rates are likewise less than those imposed in the case of lands

under other systems that are far less favourably situated. Similarly in the United Provinces the rate for wheat irrigated by flow was fixed at Rs. 1-10-8 in 1862-63, raised to Rs. 2-4-0 in 1867-68 and to Rs. 3 in 1878-79. No further change was made till 1905-06 when it was raised to Rs. 4. That rate remained unchanged till 1923-24, when it was raised to Rs. 5. Meanwhile, in the Punjab, rates that had been for a long time unchanged were raised in 1924 for the purpose of balancing the budget. An undertaking has since been given that these will be reconsidered.

The proper course appears to the Committee to be to revise the rates, whether in the direction of increase or decrease, periodically with reference to prices. The period adopted for this purpose by the Government of Bombay is six years, and the Irrigation Rates Committee in the United Provinces suggested five. The Committee would recommend ten as a maximum.

[Th]e principles [su]ggested for [ad]option.

138. The principles of general application for the future which may be deduced from these criticisms of the varying systems in force may perhaps be summed up as follows:—

(1) It seems to be clear, especially in view of recent developments of the land revenue systems, that wherever possible the charge for water should be separated from the charge for the land.

(2) The minimum charge, except in the case of protective works, or where a special concession is given to a particular area or class of cultivators, should be the cost of supplying the water, that is to say, the cost of maintenance of the irrigation work *plus* interest on capital cost.

(3) The maximum should be a figure so fixed as to take for the Government the whole of the increase in the return from the land except such portion as will be just sufficient to induce the cultivator to take the water.

(4) The normal should be a moderate share of the value of the water to the cultivator.

(5) This value will vary with prices, with the demand for the water, with the reliability of

the source of supply and with the quality of the water in so far as, for instance, it carries silt, but should not bear any relation to the cost of the supply, once the figure of the cost is covered.

(6) The rate should be fixed per acre or other unit of area and should take account of the value as so determined and of the quantity used as estimated with reference to a schedule of proportional requirements of different crops in the locality.

(7) The rates should be as few as possible and they should be examined with a view to increase or decrease periodically not less than once in ten years.

(8) Where the demand is not constant, and the ryots agree to pay for water whether they require it or not, a reduced payment for a term of years may be accepted.

(9) Where a guarantee of supply is newly given, it is legitimate to take a reasonable share of the addition made to the capital or annual value of the land by such guarantee. This should be a charge on the owner and over and above the charge on the occupier for the use of the water. In the case of a controlled rent there should be provision for recovery from the tenant as under the Agra Tenancy Act.

(10) The rates under protective works should be examined periodically with the rest, unless there are special reasons for subsidising the cultivators under these works at the expense of the general tax-payer.

Sir Percy Thompson agrees generally with the conclusions of the Committee except as regards the fourth of their recommendations. In his view the correct principle on which to base the charge for water is that enunciated by the Government of India in 1922 and quoted on page 111 He recognises that, especially at the initiation of a scheme of irrigation, it will be necessary to leave to the cultivator a considerable measure of the benefit conferred by water in order

to induce him to take it; but if rates are kept permanently low, the benefit will very quickly be absorbed by the landlord in the shape of increased rent, and the cultivator will not benefit in any way by the low rate. This seems to be contemplated by the ninth of the Committee's recommendations, which would be unnecessary if the charge on the cultivator was adequate. While he has every sympathy with the cultivator, he can see no reason whatever for presenting the owner with an unearned increment. The only way to avoid this is to make the charge for water commensurate with its value, and this is the basis of the principle enunciated by the Government in 1922. In his view this policy should be resolutely pursued in spite of the difficulties occasioned by past errors.

CHAPTER VI.—TAXES ON CONSUMPTION—CUSTOMS

IMPORT DUTIES

139 Import duties form the largest single item in the revenues of the Government of India, yielding in 1924-1925 a total of 41 51* crores Before the Mutiny the rate was 3½ per cent on raw produce and 3½ or 5 per cent on manufactured articles, these rates being doubled in the case of goods coming from countries other than the United Kingdom In 1859 a considerable enhancement was made, but the differential rates were abolished As the finances of the country recovered from the strain of the Mutiny, the rates were again lowered In 1864 the general rate was 7½ per cent, with cotton piece-goods at 5 per cent Eleven years later further reductions became possible, the controversy regarding the cotton duties arose, and following the partial abolition of the cotton duties in 1878 and 1879, the whole of the import duties were abolished in 1882, excepting those on arms and liquors Except for these and a small duty on petroleum, which was imposed in 1886, the import of goods into India was free until 1894 Brief history of the revenue tariff.

In 1894 customs duties were reimposed as part of the taxation necessary on account of the fall in the sterling value of the rupee The tariff which was in force from 1894 to the outbreak of the European War, was a low revenue tariff with a general rate of 5 per cent As exceptions to this, railway materials and machinery were admitted free, and a low duty of 1 per cent was imposed on iron and steel A further important exception was made in 1896 when the duty on cotton piece-goods was reduced to 3½ per cent, simultaneously with the first imposition of an excise duty on cloth in India. The special rates on arms and liquors continued, and tobacco was added to the list of goods which paid a comparatively high rate.

Since the outbreak of the War there have been three important increases in the tariff rates, in 1916, 1921 and 1922 The first revision raised the general rate to 7½ per cent, imposed a 10 per cent duty on sugar, and subjected machinery, other than that for use in cotton mills,

* This includes 2 61 crores, duty on imported salt

railway materials and iron and steel to a duty of $2\frac{1}{2}$ per cent. In the following year cotton piece-goods, which had been left untouched in the 1916 revision, were brought under the general rate. In 1921 the general rate was raised to 11 per cent, the duty on sugar, liquors and tobacco enhanced, and a high specific duty imposed on matches. A new schedule of 'luxury' goods, such as motor cars, silk goods and watches, was introduced, for which a 20 per cent rate was prescribed. The last revision, that of 1922, brought the tariff to its present form. The general rate was increased to 15 per cent, with the important exception of cotton piece-goods, which were left at 11 per cent. The rate for 'luxury' goods was increased to 30 per cent, and the duties on matches, sugar and liquor enhanced Another important change was the raising of the duty on railway materials and iron and steel to 10 per cent. It was proposed to subject machinery to the same increase, but during the passage of the Bill through the Legislative Assembly, the old rate was restored.

The element of protection introduced by high revenue duties.

140. These successive revisions of the tariff were due to the pressing need for additional revenue, which could most conveniently be met by an increase of the customs duties. While therefore the Indian tariff can still be described as a revenue tariff, except for the definitely protective duties which will be mentioned later, its effect in practice is to give protection to certain Indian industries, and thus create vested interests which are likely to become an impediment to changes in the tariff which might be desirable on purely revenue considerations.

The recommendations of the Indian Fiscal Commission.

141. In 1921 the Indian Fiscal Commission was appointed "to examine with reference to all the interests concerned the tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations". The Report of this Commission was signed in July 1922 and their principal recommendations were as follows :—

"(a) That the Government of India adopt a policy of protection to be applied with discrimination along the lines indicated in this report.

"(b) That discrimination be exercised in the selection of industries for protection, and in the degree of protection afforded, so as to make the inevitable burden on the community as light as is consistent with the due development of industries.

"(c) That the Tariff Board in dealing with claims for protection should satisfy itself—

(i) That the industry possesses natural advantages

(ii) That without the help of protection it is not likely to develop at all, or not so rapidly as is desirable

(iii) That it will eventually be able to face world competition without protection

"(d) That raw materials and machinery be ordinarily admitted free of duty and that semi manufactured goods used in Indian industries be taxed as lightly as possible

"(e) That industries essential for purposes of national defence and for the development of which conditions in India are not unfavourable be adequately protected, if necessary

"(f) That no export duties be ordinarily imposed except for purely revenue purposes and then only at very low rates, but that when it is considered necessary to restrict the export of food grains, the restriction be effected by temporary export duties and not by prohibition *

Under the second of the above heads a minority of the Commission wished to go further than the majority Their recommendation was in favour of an unqualified pronouncement that the fiscal policy best suited for India was protection, the goal to be aimed at being that India should attain the position of one of the foremost industrial nations of the world, and that she should so develop her industries as to enable her, within a reasonable period of time, in addition to supplying her own needs, to export her surplus manufactured goods

In order to carry out the policy which they recommended, the Commission proposed the appointment of a Tariff Board They also recommended the abolition of the cotton excise duty, the levy of customs duty on Government stores the elaboration of the tariff with a view to the removal of ambiguities and the cautious extension of the system of specific duties and tariff valuations

112 These recommendations were discussed in an important debate in the Legislative Assembly in February 1923, and a resolution was passed accepting in principle the proposition that the fiscal policy of India may legitimately be directed towards fostering the development

As adopted by the Government of India

* Report of the Indian Fiscal Commission 1921 22 pages xv and xvi

of industries in India. This policy should be subject to the revenue requirements of Government and to the safeguards suggested by the Fiscal Commission. In accordance with the recommendation of that body, a Tariff Board was set up. The Tariff Board has investigated the claims of a number of industries, the most important of which is the steel industry, and as a result of its enquiries, protective duties have been adopted in respect of steel and certain articles made of steel and iron, and paper, while the duty on sulphur has been removed.

Apart from the duties that are definitely protective, there are others that are protective in effect.

143. Apart from such action as was definitely protective in its purpose, the important developments which within the space of eleven years have quadrupled the yield of the import duties have naturally exercised a considerable influence on trade and some influence on the incidence of taxation. Two main tendencies may be looked for, one for the increase in duty to exert a protective effect and to encourage the indigenous production of commodities formerly supplied from abroad; the other for high duties to contract the demand to such an extent that the high duty yields less than a lower duty would do.

—those on sugar, cigarettes and matches.

The commodities, the indigenous production of which may be encouraged by high revenue duties, may be commodities for the production of which India is naturally suited, or the reverse. Thus duties of this nature may either have a useful protective effect or may, in the extreme case, if not accompanied by an excise, result in losing customs revenue while fostering an unstable industry. An instance of a duty on an article which is a very good revenue producer, and at the same time one in respect of which an element of protection is not undesirable, is that on sugar, which at present pays a duty of 25 per cent. A somewhat more doubtful case is that on cigarettes, in which case a very high duty on the imported article, coupled with a comparatively low duty on unmanufactured tobacco, has led to a large local manufacture of cigarettes in which a considerable proportion of imported tobacco is used. A case about which even greater doubts have been expressed is that of the duty on matches, in connection with which the first effects of the imposition of the duty were to encourage the import of undipped splints to be dipped and sold as matches in India. This practice has been stopped by the imposition of a heavy duty on splints, and a more complete process of manufacture,

whether from imported or from local wood, is now being carried on. It is still an open question, however, how far it could be successfully carried on without the aid of the duty, which gives it protection to the extent of 200 per cent.

The question whether, in the case of others, the point of diminishing returns has been reached.

144. As to whether the duties on any article have reached the point of diminishing returns, it is difficult on present information to arrive at a definite finding, since there is not available a record of the course of trade over a series of normal years. The abnormal years of the War were followed by an unprecedented boom in imports: the boom was succeeded by a severe slump, and the last few years have been years of gradual recovery from the slump. It is thus impossible to isolate the effect of the duties on the volume of trade. In evidence of this may be cited the fact that the imports of numerous kinds of goods dropped when the 11 per cent rate was imposed, but increased when the rate was raised to 15 per cent in the following year, a fact which indicates the conclusion that the gradual recovery of trade was a factor of more importance than the increase in duty.

—the case of gold and silver thread.

Subject to these considerations, it is possible to indicate certain duties which appear to be exercising a restrictive effect on trade. The imports of gold and silver thread have fallen greatly, and evidence has been given to the effect that the present high duties are restricting imports, encouraging the import of imitation goods and fostering the manufacture of gold and silver thread in India.

—Ivory and plated ware.

Manufactured ivory seems to be a similar case, inasmuch as the imports have dropped to a quarter of what they were in 1922-23. Similarly the imports of gold and silver plate and electroplated ware have fallen to half the amount in 1922-23, and it is reported that local manufactures are taking their place. It is, however, very likely that a diminution in the consumption of such luxury articles is one of the first effects of a slump; and the reduction in imports cannot be necessarily attributed to the increase in the import duty.

—the case of saccharine.

It may be appropriate here to notice the case of one article, namely, saccharine, in respect of which a deliberately prohibitive duty has been imposed as a matter of protection to the large revenue from sugar. The Committee have received evidence, in fact the matter seems to be one of common knowledge, that this duty is widely

evaded. Such evasion is a common experience in other countries with high revenue tariffs, and great difficulties have been found in dealing with it. One suggestion which has been made, and which the Committee put forward for what it is worth, is that, if it is found that smuggling cannot be put down under the ordinary preventive law, the further step should be taken of prohibiting import except on behalf of Government and of prohibiting dealing in saccharine that is not put up in packets bearing a Government mark.

—cigars.

The high duties on cigars have been followed by some contraction in imports, but the general decline in cigar-smoking throughout the world renders it unsafe to attribute this to the duty.

—motor cars

On the other hand, the much-criticised 30 per cent duty on motor cars has justified itself as a producer of revenue. After a severe slump, which was partly due to special causes, imports have nearly recovered to the level they attained in 1919-20.

Changes in incidence—the effect of the duty on sugar.

145. From the point of view of the incidence of taxation, it is important to know whether the increase in customs revenue has involved the shifting of the burden from one class to another. With a view to arriving at an estimate of its effects in this direction, the revenue from import duties in 1924-25 and 1913-14 has been analysed so as to distinguish the taxes on articles of direct consumption from those on means of production and those on raw materials. The first class has been divided again so as roughly to distinguish articles consumed mainly by the richer classes from those consumed by the population as a whole. The comparison shows that there has been an increase in the duty collected on raw materials of industry and on means of production from 54 lakhs and 38 lakhs, respectively, in 1913-14, to 494 lakhs and 193 lakhs in 1924-25. This is due largely to increased imports, partly to increased duties and largely again to the imposition of protective duties on steel. While it is desirable that the duties on raw materials of industry and means of production should be reduced where possible, it is evident that no conclusions can be drawn from figures which are to a great extent the direct result of a policy of protection. In the case of articles of direct consumption, there has been an increase, in the case of those consumed by the population as a whole, from 430 lakhs to 1,746 lakhs, or by 307 per

cent, and in the case of articles, mainly of luxury, consumed by the richer classes from 400 lakhs to 1,416 lakhs, or by 254 per cent So far as these figures go, they tend to indicate a certain amount of shifting of the burden from the richer classes to the general population The duty chiefly responsible for this appears to be that on sugar, which was imposed for the first time in 1894 at 5 per cent raised to 10 per cent in 1916 to 15 per cent in 1921 and is now fixed at 25 per cent at which figure it yields 14 per cent of the total customs revenue It has been stated above that this duty is a good revenue producer and at the same time one in respect of which an element of protection is not undesirable, but it must not be forgotten in noting these facts that it has also the effect of raising the price of country sugar as well as that of imported sugar and thus tends to increase the burden of taxation on the poorest class who are large consumers of both kinds

The tax on liquors would bear an increase

146 A class of goods upon which a higher duty could apparently safely be imposed consists of wine beer and spirits The import figures for the last few years show that those of beer are a long way below the pre War level but are gradually recovering those of spirits are practically stationary while the imports of wine have recovered almost to their pre War level The suggested increase in rates derives its support however not so much from these figures as from the fact that certain Local Governments have found it possible to levy as vend fees charges which in practice amount to a supplementary customs duty Thus in Bombay a vend license fee based on quantity is charged on all liquor removed from the custom house which is destined for consumption in the Bombay Presidency and a somewhat similar charge is levied in Bengal If these provinces can pay the increased duty, there is no reason to suppose that the rest of India cannot and if the duty is to be increased, it is much better that it should be increased through the tariff than by such indirect and partial means

The whole tariff needs overhauling and revision.

147 The increase in the weight of the customs duties and the introduction of a variety of different rates have revealed the fact that the structure of the tariff schedules is no longer suitable It was framed for light and fairly uniform rates of duty and for revenue purposes only, and it is in consequence one of the least elaborate tariffs in existence The rates now in force range over very

wide categories of goods, and as might be expected, considerable difficulties have arisen in the interpretation and application of the tariff. Importers naturally fight points when they are paying a 15 per cent duty which they would pass over if the rate was only 5 per cent. To give examples of the kind of difficulty which arises, an article of iron or steel may fall under any one of five categories, so that an importer may be unable to say at the time of giving his order what duty he is likely to be liable to pay. And owing to the existence of very wide categories there are many border line cases: thus it is left to the Collector to decide whether a given article is a picture dutiable at 30 per cent or a work of art dutiable at 15 per cent.

The Fiscal Commission realised these difficulties, and while recommending a cautious but considerable extension of specific duties and tariff valuations, pointed out that more elaboration was necessary both on that ground and because protection inevitably involved a multiplication of the items in the tariff. The need for such elaboration has been confirmed by the evidence furnished to this Committee, and especially by that of Dr. Gregory, the author of "Tariffs—a Study in Method" who says: "Specific duties are, however, degressive if imposed at a uniform rate. A thorough-going system of specific duties involves differentiation of different grades of the commodity, and this is inconsistent with the principle of 'blanket' rates, or a few rates among which all the articles are distributed, which seems to characterise the present Indian tariff." He adds: "In a period of rising prices specific duties must be altered if the real income of the State is not to suffer. For this reason the customs tariff should be the object of periodical survey." The Committee concur in this view and recommend that an expert enquiry be undertaken forthwith.

Difficulties of appraisement form an added argument in favour of this course.

148. An additional argument in favour of revision on these lines is that the present form of the tariff throws a considerable strain on the appraising staff. It is generally recognised that the theoretical advantages of an *ad valorem* tariff are apt to be discounted by what Dr. Gregory describes as the overwhelming disadvantage that they involve valuation. This disadvantage is increased in proportion as the rates of duty are raised and as the number of places at which valuations have to be made is multiplied. In India there is the additional factor

of a special difficulty in securing men with an expert knowledge of the many classes of goods that have to be valued

149 A further difficulty to which the Committee's attention has been called arises out of the application of section 30 of the Sea Customs Act Under this section the real value of goods that require appraisement is deemed to be— The operation of section 30 of the Sea Customs Act.

(a) the wholesale cash price less trade discount for which goods of the like kind and quality are sold, or are capable of being sold, at the time and place of importation, without any abatement or deduction except of the amount of the duties payable; or

(b) where such price is not ascertainable, the cost at which goods of the like kind and quality could be delivered at such place, without any abatement or deduction except as aforesaid

In practice the value adopted in the second case is generally the invoice value *plus* the cost of freight The effect of the section is thus to make the duty on the higher value, namely, that which includes the wholesale dealer's profit, chargeable where the market price is ascertainable, and duty on a lower value where it is not. It seems to the Committee, not only that this practice of charging on the wholesale dealer's profit, which has the same effect as charging a higher rate, gives rise to a sense of injustice, but that the order of the application of the two clauses of the section inverts the proper order of things The tendency of the present section is to put a premium on making the wholesale cash price unascertainable. The tendency should be, in the Committee's opinion, to put a premium on the production of an honest invoice, and to penalise failure to do this by subjecting the importer who so fails to what is in effect a penal charge of duty based on the wholesale rate What they would recommend therefore is that, when the Act comes up for revision, the order of the two clauses should be inverted and that the charge should normally be on the price at which goods of like kind and quality can be delivered, that is, the invoice price *plus* cost of freight, subject to the application of the wholesale rate if there is reason to suspect that the invoice is not genuine.

PREVENTIVE ARRANGEMENTS.

The high rates of duty have given much encouragement to smuggling.

150. A consequence of the high rates of duty that has given rise to concern is the encouragement which they have given to smuggling. The conditions in India are in some respects peculiar. Though the coast line is very long, there is a dearth of good harbours, and the great bulk of the foreign trade is concentrated in the five ports of Bombay, Calcutta, Karachi, Rangoon and Madras. This fact greatly minimises the cost of collecting the customs revenue, which is further facilitated by conventions entered into with all the Indian maritime States, except that of Cutch, under which they levy duties at the British Indian tariff rates. In some cases, notably that of the Kathiawar States, through which there have been very large importations of goods subject to high rates of duty, such as matches and silks, these conventions do not appear to have fully effected their purpose. Further difficulties arise from the fact that there are also several ports belonging to Foreign Powers, of which the principal are Goa, Pondicherry, and Karikal. Round the hinterland of these ports it is necessary to maintain a land customs line, while in the extreme east of the Indian Empire there is a long land frontier between Burma and China and Siam. Except in Bombay, where there is maintained, in addition to the forces operating round foreign territory, a considerable force, mainly for salt and opium work, on the inner border of Kathiawar, and a smaller one along the British coast line, the preventive force is confined to the precincts of the main ports, and the watching of the coast is left to the ordinary administrative staff.

A sketch of the preventive arrangements.

151. At the main ports, where there are regular preventive staffs, there is little evidence that smuggling is out of control except in the case of a few articles such as opium, hemp drugs and cocaine, in relation to which the prizes for the successful smuggler are very great. The ports differ in the facilities which they offer for smuggling: the situation of Calcutta and Rangoon on rivers at some distance from the sea renders them somewhat difficult to guard. The minor ports are managed under a variety of systems. Those in Bombay are controlled by a separate officer, who is also in charge of Salt: in Madras, where the out-ports are more important and the work of the Collector of Customs at the chief port is less onerous, he is able to supervise their working. In Burma some of them are still under the control of officers

of the Royal Indian Marine. The absence of any effective guard over the coastline is to some extent explained by the practical difficulties of landing goods at places other than the regular ports and by the absence of means of communication with the interior. But there seems little reason to doubt that facilities do exist for the smuggling of articles of small bulk and high value which could be utilised by an efficient organization of smugglers. The most difficult of the problems of prevention is, however, that of protecting the land frontiers, and it is here that smuggling, particularly of matches, cigarettes, saccharine and gold thread, has been most marked. The difficulty of guarding the Pondicherry land frontier lies chiefly in the fact that British and French territory are inextricably mixed up in numerous small enclaves, while there is no natural obstacle to reinforce the customs line. In addition to this up to 1924 great difficulties were felt owing to the inadequacy of the law. The only powers which the customs officers possessed were those given by the Madras and Bombay Land Customs Acts, which provided for the prescription of routes and the collection of duty on goods passing by these routes, but did not make smuggling an offence. Goods crossing the frontier in a clandestine manner could be confiscated, but the smuggler was liable to no further penalty. In 1924 a new Act was passed which extended to the land frontiers certain provisions of the Sea Customs Act and rendered smuggling an offence. In Burma the position was still worse. No law existed under which duty could be levied on goods entering from Siam, and the only remedy was the drastic one of total prohibition. The new Act has enabled a land custom-house to be established, and though the length of the frontier and its physical difficulties render adequate guarding impossible, the latter characteristic also affords a considerable obstacle to the operations of the smuggler.

A recommendation for skilled enquiry.

152. It will be evident from the above survey that, while the present high tariff offers great temptations to the smuggler, there is a lack of cohesion in the preventive arrangements, which certainly offer many facilities for his operations. It is not desirable to recite instances of the way in which advantage has been taken of these facilities, but it may be said that, though there is no evidence that any considerable percentage of the customs revenue is lost through smuggling, it is clear that there is a loss amounting at least to several lakhs a year, and in the words of a recent note in the *Pioneer* "many

produced a revenue of Rs. 375 lakhs. The incidence of the duty is between 4 and 5 per cent *ad valorem* and no criticism has been made of it. The concentration of the export trade in Calcutta facilitates collection. The article upon which it is imposed is a true monopoly. Though a number of attempts have been made to grow jute in other parts of the world, they have been unsuccessful. The monopoly which at present exists would be infringed if an equally cheap substitute for jute could be discovered, or by an extension of the system of bulk-handling of grain. The possibility of such developments is a reason why the duty should not be increased to an extent which would render jute appreciably more expensive, but, as matters stand at present, the conditions in which an export duty can properly be imposed are fulfilled.

Certain witnesses have advocated that the duty should be increased. Theoretically, the maximum rate of duty which could be levied on jute is determined by the point at which the trade is in any danger of injury. A special factor which must be considered in this connection, however, is the concentration of the growth of jute in one province. In spite of the monopolistic character of the product, there exists a possibility that, in certain conditions of the trade, a portion of the export duty may fall on the producer. For this reason a considerable increase in the rate of duty involves the likelihood of differential taxation on the inhabitants of Bengal. The Committee do not recommend any increase in the rate of taxation, and in any case a necessary prelude to the consideration of any such increase would be an examination of its effect on trade by the Tariff Board.

The duty on rice.

157. Though rice is not a monopoly of India, the export duty has been in operation for many years without any bad effects. Its justification lies in special circumstances. The only countries which export appreciable quantities of rice are India, Siam and Indo-China. The Indian share of the trade varies between one-third and one-half. As each of these countries levies an export duty, the Indian duty does not handicap the producer and its remission would in fact put an equivalent amount of money into the hands of the producers and the middlemen. The rate is low and its weight has decreased greatly with the rise in prices. The duty is a proper one to impose: any alteration in its rate must depend on the

world price and the situation in the other exporting countries, and an examination by the Tariff Board would be an essential preliminary.

158. The export duty on tea resembles that on rice in that India is only one of several exporting countries and that its principal competitor, Ceylon, also levies an export duty, which is at present double the Indian rate. The Fiscal Commission advised the abolition of the Indian export duty on the ground that India was not in a position to impose her terms on the world and that evidence existed that Java tea was displacing Indian tea, especially in Australia. The course of events since the Fiscal Commission reported gives reason to doubt whether the export duty is actually having the effect which they feared. A comparison of the trade statistics for the three years ending 1913-14 with those for the last three years shows that India has increased her share of the world trade from 39 to 49 per cent, and, though Java has increased her share from 8 to 12 per cent, her progress has been made at the expense of China and not of India. The consumpiton of any particular variety of tea is largely a matter of taste and normally does not depend entirely upon comparative cost. To some extent the effect of the duty is mitigated by the preference, amounting to two-thirds of a penny a pound, which Indian tea enjoys in England, its principal market. The tea duty is one which may continue for the present, but it should be removed or reduced if and when the conditions of the trade indicate that it is having a prejudicial effect. The duty on tea.

159. The last of the existing export duties is that on hides and skins. This was first designed mainly as a measure of protection to the Indian tanning industry, and to divert the tanning of Indian hides from Germany to the British Empire. The experiment failed to achieve either object. The Indian tanning industry did not succeed in establishing itself in the manner which was expected when the duty was imposed; the export of hides from India has fallen to about half the pre-War figure, and the greater part of the trade has again passed to Germany. The Fiscal Commission condemned the duty as wrong in principle, on the ground that, if protection was needed, it should be obtained through an import and not through an export duty, and considered that it had failed in its objects. Recognising the defects of the duty, the Government of India in 1923 reduced the rate to The duty on hides and skins.

5 per cent and abolished the 10 per cent preference on hides and skins tanned in the British Empire. The retention of the duty in its modified form was due to the need for revenue. The Committee, by a majority, agree with the Fiscal Commission in considering the duty on hides to be wrong in principle and dangerous in its effects, and would advise its early abolition. Dr. Paranjpye and the Hon'ble Sardar Jogendra Singh consider that the experience of the last few years cannot be regarded as conclusive on account of the abnormal conditions due to the War and its after-effects. They consider that a vigorous effort should be made to encourage the Indian tanning industry and that the export duty should not be given up.

The duty on skins falls in a different category. Indian goat-skins, though they contribute only one-third of the world's total, enjoy a good reputation, and the trade figures since the duty was imposed do not indicate that it has had an injurious effect. The duty upon them may be retained, but a convenient opportunity should be taken for an examination of the position by the Tariff Board.

Subjects proposed for export duties —lac.

160. A number of witnesses have indicated the possibility of the imposition of export duties on articles which are now free. In view of the possible need for developing the revenue from export duties in order to replace existing taxation, the facts have been examined. The principal new subject suggested as suitable for an export duty is lac. Lac is produced only in India, Indo-China and Siam, and as the two latter countries only produce 2½ per cent of the total, India enjoys a practical monopoly. The only factor likely to endanger the trade is the utilisation of substitutes in trades which use shellac. Various substitutes have been tried, but success has not hitherto been attained in reproducing the qualities which render shellac valuable. In particular the Germans found that the use of shellac substitutes rendered their electrical machinery unfit for use in hot countries. Owing to frequent failures of the supply to meet the demand and to the difficulty of forecasting the supply, the price of shellac fluctuates widely, and for this reason it is doubtful whether a moderate export duty would have any appreciable effect in driving consumers to the use of substitutes. Lac is therefore a suitable article upon which to levy an export duty.

Attention has been drawn to a growth of the export of unmanufactured lac. A few years ago the exports of seed and stick-lac formed an inappreciable proportion of the total exports, but in the last two years the quantity has materially increased, and in 1924-25 amounted to 10 per cent of the total. To some extent this growth in the export of unmanufactured lac may be ascribed to the fact that for certain purposes the unmanufactured article is equally suitable with shellac. Evidence has, however, been given of the establishment of factories abroad for the manufacture of shellac from stick-lac. If this development constitutes a danger to the Indian shellac manufacturing industry, the imposition of a protective export duty on manufactured lac would in the

ERRATUM.

Page 131, *line* 14, *Volume I of the Report of the Indian Taxation Enquiry Committee*, 1924–25.

For the word "manufactured" *read* "unmanufactured".

...ric.

The yield of an export tax at the rate of 5 per cent *ad valorem* at present prices would be about 38 lakhs.

161. The advisability of an export duty on raw cotton was pressed by a number of witnesses, partly as a revenue measure, and partly as a measure of protection to the Indian cotton-mill industry. A majority of the Committee agree with the Fiscal Commission in considering such a duty to be unsound because it would fall upon the producers of Indian cotton and might do considerable harm to the export trade. Further they agree with the Fiscal Commission in considering that, if the Indian cotton-mill industry requires protection, the proper course is to increase the import duty on manufactured goods. A minority of the Committee, consisting of the Hon'ble Sardar Jogendra Singh and Dr. Paranjpye, hold that, as Indian short-staple cotton is, as compared with the long-staple cotton of other countries, a practical monopoly of India, its use being extremely profitable on account of its comparative cheapness, and as this cotton is mainly exported to countries which compete, by the

—raw cotton.

help of bounties, shipping subsidies and other means, with Indian manufacturers in the Indian market itself, an export duty on Indian cotton is justified. They consider that, although the share of India in the cotton production of the world is smaller than that of some other countries, still the world production of cotton is not equal to the demand, and that the energetic efforts that are being made to find out and develop other cotton producing tracts show that Indian cotton is essential to the world, and that the export duty, if moderate, will probably not fall on the producer. They would suggest that the proceeds of such an export duty would go a great way in making up for the loss of revenue caused by the repeal of the cotton excise duties which has been recommended by the Fiscal Commission and which has been demanded by Indian public opinion ever since their imposition.

— oil-seeds and manures.

162. The Committee are not unanimous regarding the advisability of levying an export duty on oil-seeds, bones, and other forms of manure. A majority hold that it is important in the interests of Indian agriculture to encourage the use of fertilisers, and to increase the supply of a valuable nourishing food for cattle, whose condition is generally regarded as deteriorating, and they think that the most suitable method of doing so is to impose an export duty which would have the effect of encouraging the crushing of oil-seeds in India and of cheapening the cost of oil-cake and other forms of manure to the Indian cultivator. They would also recommend that a part of the proceeds of this export duty should be applied towards educating the cultivators to make an increased use of these artificial manures and thus increase the productivity of the soil. The President and Sir Percy Thompson are opposed to this recommendation, on which the Maharajadhiraja Bahadur of Burdwan expresses no opinion.

CHAPTER VII.—TAXES ON CONSUMPTION—EXCISES LEVIED FOR PURPOSES OF REVENUE

Principles governing the levy of excise duties.

163. Consumption taxes levied on local production, commonly known as excises, fall into two classes, those that are levied for purposes of revenue only and those that are levied with an ulterior object, generally that of restriction of consumption. Some taxes of the first class are an almost necessary corollary of a high revenue tariff, and it was from this point of view that they were considered by the Fiscal Commission. That body drew up certain propositions regarding them which, with a slight modification in the last case, the Committee accept as follows:—

"(1) Excise duties should ordinarily be confined to industries which are concentrated in large factories or small areas.

"(2) They may properly be imposed for the purpose of checking the consumption of injurious articles, and especially on luxuries coming under this category.

"(3) Otherwise they should be imposed for revenue purposes only.

"(4) While permissible on commodities of general consumption, they should not press too heavily on the poorer classes."

(5) When an industry requires protection and a consumption tax is also required from the produce of that industry in the interests of the revenues, the necessary amount of excise is unobjectionable, provided that it is accompanied by an import duty equal to the excise duty, together with the necessary protective duty, *plus* a small extra duty to compensate for the administrative inconveniences to the manufacturer caused by the excise duty.

SALT

The excise on salt. The arguments for and against.

164. The chief of the excises levied in India is that on salt. The objections to this tax are well known. It falls on a necessary of life, and to the extent that salt is essential for physical existence, it is in the nature of a poll tax. The bulk of it is paid by those who are least able to contribute anything towards the State expenditure. Salt is also required for various industrial and agricultural operations and for cattle. Unless it is issued duty free for these purposes, some burden is thrown upon the industries in which it is used.

The case in favour of it may be stated in the words of a recent American writer:—

"From ancient times salt has frequently been selected for special taxation. Almost every country has taxed it at one time or another. An alternative method of exacting revenue from the salt industry has been to make it a fiscal monopoly. Such has been the case in Japan, China, France, Austria and Italy. Elsewhere it is usually the object of a high excise duty. From every point of view salt is admirably adapted to be a tax-bearer. It is universally used, but the amount that is used by any one tax-payer is small. The demand is very inelastic, especially when the tax is confined to salt used for cooking purposes. While the yield, unless the rate be very high, is not large, it nevertheless amounts to something, and in the case of a fiscal necessity all sources may need to be drawn upon."*

Mr. George Plowden, who was appointed as Commissioner to investigate the whole matter of salt taxation in India in 1856, stated the question in other terms as follows:—

"When the question of the propriety of a salt tax in India is investigated, it is found to resolve itself into the question of whether it is proper or not, to lay, directly or indirectly, any tax whatsoever upon the mass of the community."

The latter question is answered to some extent by Sir Josiah Stamp as follows:—

"I should work out the tax burden on a low income (*via* salt) and ask, if abolished, or altered, in what probable respects well-being would be improved by the ordinary exercise of the improved purchasing power. If inconsiderable, I should continue the burden."

The rate of duty. History.

165. Where such a tax is levied, the further questions arise of the rate of duty and the method of levy. The rate of duty in India originally varied from province to province, and that in Bengal was as much as Rs. 3-4-0 a maund up to 1844, that is, at a time when the purchasing power of the rupee was very much higher than it is now. Numerous changes followed and it was not till 1882 that a uniform rate of Rs. 2 was adopted for the whole of India excepting Burma. This was raised to Rs. 2-8-0 in 1888, reduced again to Rs. 2-0-0 in 1903, to Rs. 1-8-0 in 1905, and to Re. 1-0-0 in 1907, when for the first

* Jensen: Problems of Public Finance, pages 303 and 304.

time the rate in Burma became equal to that in the rest of India The general rate was raised to Rs 1-4 0 in 1916 and to Rs 2 8 0 in 1923, and it was finally reduced to Rs 1 4 0 in 1924

166 The question whether or not the rate of duty is excessive may be tested to some extent by taking figures of consumption per head over periods when different rates of duty were in force, and seeing how far they correspond with, or fall short of, the quantity necessary for health Unfortunately this is a matter in respect of which useful statistics are difficult to obtain In the first place, to quote Dr Ratton, "the amount of salt required for daily consumption to maintain the body in a condition of health varies greatly with the dietary, as salt is already contained more or less in most articles of food" * Elsewhere he quotes the following figures of annual consumption in different countries "England, 40 lbs , Portugal, 35 lbs , Italy, 20 lbs , France, 18 lbs , Russia, 18 lbs , Belgium, 16½ lbs , Austria, 16 lbs Prussia 14 lbs , Spain, 12 lbs , British India, 12 lbs , Holland 11½ lbs Sweden and Norway, 9½ lbs , (Schleiden) Switzerland 8½ lbs " He adds "England and Portugal which are untaxed, lead the way, but Norway which is also untaxed, lags far behind Assuming that the people only require 10 lbs per head of taxed salt for their own use everything above that represents so much industrial activity "† He gives the following figures of the daily allowances included in official dietaries "In the French Army, the allowance of salt is 0 5 ounce, in the Navy 0 77 in the Russian, 1 59, in the English, about 0 25 "* These figures may be compared with the annual allowance in pounds provided by the dietaries in the jails in India, which are adopted on medical advice, and are as follow —

Consumption per head

Province	Indians	Europeans and Anglo Indians.
Madras	17 60	17 60
Bombay	11 73	11 73
Bengal	17 60	14 66
United Provinces	11 26	11 26
Punjab	11 73	11 73
Burma	11 73	14 66
Bihar and Orissa	17 60	14 66
Assam	14 26	11 73

* Ratton Handbook of Common Salt page 1[illegible]
† , , , 360

The figures of general consumption per head as given in the administration reports are less reliable: they only cover a part of India; they are not prepared on the same system in each case, and it is feared that in some cases they overlap. So far as they go, however, they again illustrate how markedly consumption varies with the change from a diet of which the chief constituent is wheat to one composed more largely of rice.

Statement showing annual consumption of salt per head in the different Provinces in 1921-22.

	lbs.
Punjab	10.26
Sind	10.41
Rajputana and Central India	10.59
Bihar and Orissa	10.97
United Provinces	10.98
Central Provinces and Berar	11.56
Bombay (excluding Sind)	13.94
Bengal	15.24
Burma	18.54
Madras (including Mysore and Coorg) ...	18.88

Both these sets of figures for what they are worth tend to confirm Dr. Ratton's statement as to the manner in which salt consumption varies with the dietary. It follows that no final conclusions can be drawn from a comparison of the varying rates shown with his suggested standard of 10 lbs. as the quantity required to maintain the body in health, but there is no reliable evidence before the Committee that the quantity used in India is inadequate.

Effects of variations in the rates of duty.

167. It remains to consider the effect of variations in the rates of duty upon the consumption. For this purpose it is proposed to take as the index number the figure of consumption per head for continental India in the year 1878-79, when the duty was Rs. 2-14-0 in Bengal and Rs. 2-8-0 in the other provinces. To arrive at this and the corresponding figures for subsequent years it is proposed to divide the total of the imports *plus* issues from places of manufacture by the total population affected. Even in this case it is impossible to be sure of accuracy, because, while a large part of India other than British India uses salt that has paid duty to the British Government, other considerable areas provide their own supplies, and the ascertainment of the population over which

the duty paid issues have to be divided is largely a matter of guess work. The figures, however, are sufficient to afford some general indications of the effects of the duty and the tendencies of consumption. On the basis indicated the consumption per head in 1878-79 was 8·9 lbs. With this as an index number it is found that for the twenty years from 1882-83 to 1902-03, for the first six of which the duty was at Rs. 2 and for the rest at Rs. 2-8-0, the consumption ranged between 109 and 116. Successive reductions from Rs. 2-8-0 to Re. 1 between 1903-04 and 1907-08 accompanied an increase to 136. The consumption remained steady after that for three years and then continued to increase in spite of an increase in duty to Rs. 1-4-0 in 1915-16 and of the shortage and high prices during the War. For 1922-23 it rose to the figure of 173 to fall to 153 on the introduction of a Rs. 2-8-0 rate for the single year 1923-24, which of course meant large issues before the duty was raised and again after it was lowered. On the whole the figures of the 45 years show an increase of 50 per cent.

168. It would thus appear that, so far as general averages afford a guide, they do not support the idea that the effect of the duty has been to raise the price to a point at which it restricts the consumption below the quantity necessary for health. Even granted that it has not had that effect, the [illegible] annas per head per annum which is what a duty at Rs. 1-4-0 a maund would roughly represent may involve a hardship in the case of the very poorest. But to apply Sir Josiah Stamp's test, it may fairly be doubted whether a complete abolition of the duty would result in any considerable increase in well-being in the case of these classes. If such an abolition were accompanied by a removal of control and free competition allowed, with its risks of manipulations of supplies, it is quite possible that it would result, at least temporarily, in large increases of price, over which the control now imposed in the interests of the revenue affords an effectual check. And it is of interest here to record that in Japan when "in and after the financial year 1918-19 the idea of realising profit in the salt monopoly was done away with from the viewpoint of social policies,"* the monopoly of manufacture, import and sale was continued.

If any tax which falls on the poorest class is desirable at all the salt tax is appropriate

* Financial and Economic Annual of Japan, 1924, page 34.

It may be concluded that, if it is desirable to impose any tax on the mass of the community at all, there is much to be said for the continuance of the salt tax. The present rate of duty is appropriate and causes no serious hardship. The retention of the machinery for collection makes it possible to secure additional revenue with ease in case of grave emergency, which should be the only ground for raising it. It seems desirable to add that changes in the rate should neither be made nor officially adumbrated except in cases of such grave emergency. There is abundant evidence that the discussions of recent years have resulted in much unsettlement of the market, considerable increases of price to the consumer and profit to the dealer with no advantage to the Exchequer. Dr. Paranjpye would like to see that the rate is reduced to about 8 annas in normal times as the figures given above show that the consumption increases with a decrease in duty. He considers that this is a legitimate source for increased taxation in cases of emergency and would therefore keep the normal rate very low. Also he thinks that any reduction in the rate should be appreciable, otherwise it would not benefit the mass of the people who buy their salt in very small quantities at a time.

The system of administration—history—the earlier arrangements

169. For an understanding of the various systems of control now in force, it is necessary to touch briefly on the history of the salt revenue administration. This began in Bengal, after the assumption in 1765, under the Emperor's Firman, of the Dewanee of Bengal, Bihar and Orissa, by the grant of what amounted to a monopoly to an "exclusive company". The latter developed through sundry vicissitudes into a monopoly of the East India Company, which was protected by a high rate of customs duty. The whole matter was enquired into in 1836 by a Select Committee of the House of Commons which recommended that the monopoly should at least be reduced to a monopoly of manufacture, and stated that they hoped to see it replaced by a combined system of customs and excise, under which other parts of India and British Commerce might get a share of the supply, and that a trade might grow up from Madras to Ceylon. By the time the Committee reported, changes in these directions were already in progress, and among them was a removal of the obstacles to importation as a consequence of which a considerable import trade, for which bonded

warehouses were provided, had been commenced. In the meanwhile the Madras Government, at the instance of the Governor General in Council, had adopted a monopoly somewhat on the Bengal lines, but proposals put forward for the institution of one in Bombay had been rejected by the Court of Directors on the ground of the unsettled state of the country, and the various methods of taxing 'bay' salt in that Presidency had been developed into a sort of excise system, except in the case of the large factory at Khaaraghora on the edge of the Lesser Runn of Cutch, where a monopoly system had been established In Northern India the taxation was chiefly taken in the first instance in the shape of transit duties at the inland customs line or in that of town duties in outlying towns This was developed by degrees by the assumption of direct control of the Khewra mines in 1850 and the acquisition of the right of manufacture in the Sambhar lake and other similar sources in 1869 In Burma the system of manufacture was by boiling and the system of control in force was a primitive one of levying a charge based on the capacity of the boiler

Mr Plowden's enquiry.

170 While these developments were in progress a clause was inserted by the House of Commons in the Bill which subsequently became the Act for the Government of India of 1853 directing that the monopolies in Bengal and Madras should cease and that a system of excise should take their place This clause was expunged by the House of Lords, and an enquiry was directed into the possibilities of such a change, and Mr Plowden was instructed to make it The general result of his enquiries, published in 1856, was to suggest certain modifications of the Bombay system of excise and the application of a similar system in Madras and Bengal The Bengal monopoly was actually given up and an excise system introduced in 1863, but meanwhile the imports had grown from 2 lakhs of maunds in 1835 to 29 in 1851 and to 67 in 1863, and it was soon found that the private manufacturer was unable to hold his own against the importer at equal rates of duty, and the locally-manufactured salt almost entirely disappeared and was replaced by salt from Europe, and later from Egypt, Aden and the Red Sea.

Mr Pedder's report and the Madras Salt Commission.

171 Meanwhile in Bombay a fresh inquiry was ordered in 1872 and conducted by Mr Pedder, who was by no means of the same mind as Mr. Plowden, and doubted "whether it would not have been a wiser measure to buy

up the existing rights of Shelotrees and thus to introduce the Madras system."* He reported, however, that it was then too late to make the change. Soon after a visit was paid to Madras by Mr. Falk, President of the Northwich Salt Chamber of Commerce, who gave a highly coloured account of the quality of the salt locally made. As a result a Commission presided over by Sir Charles Pritchard of Bombay was in 1875 instructed to investigate the question of introducing an excise system, and this Commission, while finding that Mr. Falk's statements were exaggerated, reported that there were no insuperable practical difficulties in the way of a change from monopoly to excise and that the measure was not likely to prove injurious to the interests either of the consumers of salt or of the imperial revenue. They regarded "it as the most hopeful means of bringing about the improvement which" was "desirable in the quality of the salt, and of giving to the Madras Presidency the share in the trade for the supply of other parts of India and of Burma and adjacent countries which its natural advantages and geographical situation should enable it to command."† A change was made in certain factories on the strength of the recommendation, but it was soon found that none of the anticipated results ensued, and some of the factories reverted to the monopoly system, while in the case of others extensions were instituted under what is known as the modified excise system, under which the licensee is bound to sell his produce or part of it to Government if notice is given him before a fixed date.

he Salt ommittee of 903-04.

172. Another feature in the history of this period was the development in Bombay of a system of grading the salt by passing it through sieves in order to take advantage of the fact that, the duty being levied by the weight and the sale in Southern India being by the measure, the salt that gives the greatest number of measures for a given weight is that which yields the largest profits in the retail market. The development of this process led on the one hand to the extensive invasion of the Madras market, with the consequent danger of factories on that side having to be closed and the labour in them put out of employ, and on the other to the fact that, since stocks of graded salt were seldom carried over from season to season, there was a danger of shortage in the Bombay factories, which

* Report on Salt Management in Bombay by Mr. W. G. Pedder, page 14.
† Report of the Madras Salt Commission, 1876, paragraph 559.

sold three-fifths of their produce outside the Presidency. These and other circumstances led to the appointment of the Salt Committee of 1903-04, who, while divided in their opinion as to any radical change, were unanimous in recommending that steps should be taken, when new factories were erected or old Government lands given on fresh leases, for the adoption of licensing on the modified excise plan to enable the Government to secure more command over stocks and prices This recommendation has not been carried into effect

The effect of the War

173 The last stage of the history is concerned with the War and the events following it Bengal and Burma, which were mainly dependent on imported supplies, were to a large extent cut off from them Prices rose, sometimes to a fabulous figure, and a salt famine was threatened The Northern India sources were unable to supply them because of the shortage of railway stock, which even gave rise to difficulties in supplying their ordinary markets The Bombay factories did little in the way of expanding their output It was left to the factories in Madras and to the local manufacturers in Burma to make up the deficits In both cases a very large increase in output was secured, but it was secured at a serious loss to the manufacturers, who found themselves, when imports recommenced, unable to compete owing to differences in qualities of salt, high rates of freight and certain other handicaps which will be mentioned later

The mixed system of supply that has resulted.

174 The above brief sketch of the history of the salt revenue system shows how it comes about that 35 per *cent of India's needs is produced by or for sale to* Government, 30 per cent is imported and another 35 per cent is manufactured by licensees subject to a payment of excise.

Production for sale by Government.

175 The sources at which salt is produced for sale by Government are the Khewra mines in the Punjab, the Sambhar Lake and subsidiary sources in Rajputana, and the large factory at Kharaghoda on the edge of the Lesser Runn of Cutch, in addition to which there are one monopoly factory for the manufacture of 'bay' salt in Bombay and a number in Madras. In the areas dependent on the first two sources, the practice of the country is to buy salt by weight and not by measure. The salt issued from the sources is of uniform quality and it is issued at cost price, generally on indents received for issues by rail. The system has the advantage that it facilitates

large scale production, which in the case of salt conduces greatly to cheapening of cost, that it eliminates the private profits of the manufacturers and to some extent that of the dealers, and that it enables the Government to regulate the supply to meet the demand and to place a reliable article on the market at cost price *plus* duty. Nor, so far as the Committee are aware, is it open to the objection so commonly raised in the case of Government enterprises that they are expensive and badly managed. The department has a reputation for cheapness and efficiency. This is true also in a great measure of the supply from Kharaghora, but in a less degree of that from what are known as the monopoly factories in Madras, that is, factories at which salt is manufactured under license for sale to Government, and to the similar factory in Bombay. These factories, if they are to command a sale in a market in which lightness is the chief desideratum, must adopt the processes of manufacture of the excise licensees with whom they are in competition, and if they retain stocks against a shortage, are liable to find that in course of time they are unsaleable.

Imports. 176. The areas which are chiefly dependent upon imported salt are Bengal, Bihar and Assam and a great part of Burma. Their dependence on this source is due in a great measure to the quality of salt imported, since the ordinary bay salt, which alone is suitable in a market that buys by measure, is distasteful to consumers who are used to a white fine-grained article. In addition to this the importer has the advantage of very low freights, which result from the fact that the vessels which bring the salt to India would otherwise have to travel in ballast. He is able to import his salt in bulk and pays no charge on account of duty on what may be lost on the voyage. On arrival he is able to put his salt into a bonded warehouse, and in the case of Bengal he can transfer it from there to an inland bonded warehouse, and so again defer payment of duty until he actually issues it on sale. On the other hand, the Indian manufacturer is handicapped in his competition in these markets by a limitation on the tonnage of the vessel in which he may transport, by regulations regarding transport in bond, by a charge for duty on losses on the voyage, by high rates of steamer freight and still higher rates of railway freight, by the exclusion of salt transported by rail from the bonded warehouses, which receive only salt imported by sea, and

by the absence of any inland bonded warehouses for salt imported by rail. Another serious difficulty is to be found in the fact that a strong combination of the merchants in Calcutta is able at one time to prevent any new class of salt from finding a footing in the Bengal market, at another to raise the price to the Bengal consumer to a figure much above what might be expected from free competition. Similarly in Rangoon the prices are kept at a high level as long as the imported salt is alone in the market and fall immediately the monsoon abates and supplies from the local factories become available.

In short, the present import arrangements, by opening the markets of the world to Bengal, give the Bengalees salt of a sort they have learnt in the course of years to appreciate. On the other hand, they are at times compelled to pay for it a price in excess of what is reasonable. Moreover, so large a dependence on imported salt results in a danger of shortage of supplies such as occurred during the War and in discouragement to an Indian industry.

177. A considerable part of the arguments bearing on the comparative merits of the monopoly and excise systems has been developed in tracing their history, and the Committee do not propose to repeat it here. Before summing up their conclusions, however, they think it desirable to mention two points which have a general bearing on the case. The first point is one that affects any proposal for concentration of manufacture, and consists in the fact that, both in Madras and in Burma, the manufacture of salt is in a large measure a subsidiary industry to agriculture. Though many of the holdings of the licensees taken by themselves are uneconomic, the manufacture takes place in the hot weather and gives employment to agricultural labourers at a time when there is little work in the fields. The necessity for such subsidiary employment is constantly being insisted upon as one of the chief economic necessities of India, and the existence of an industry that supplies it is a matter to be taken seriously into consideration in any proposals for concentrating manufacture so as to be able to place it on a sounder footing from a purely commercial point of view. The excise system

The second consideration is one relating to the system of control, and is intimately connected with the question

of grading. In Madras, from the earliest times, there has been in force an extremely meticulous system of control and accounts at every stage from the time the salt leaves the pan till it is sold and removed from the factory. These processes, which are perhaps unduly meticulous under present conditions and under the present rate of duty, are fully described in the Salt Manual of the province. Conditions in Bombay are very different. So long ago as 1856, Mr. Plowden wrote:

"The weak point in the Bombay system of Excise is, that a *sufficiently correct account* is not secured of the stock of Salt on hand at a given time, at any given place. . . . The produce is not weighed or measured into store, but is booked up by estimate. It is objected that it could not be measured as stored into heaps without a great increase of expenditure, and that, even if it were measured into store, the loss from wastage and other casualties would constantly vitiate the stock account. I am not satisfied of the sufficiency of these objections. In the Madras Presidency, where the process of manufacture and storage is precisely similar, the produce is measured into heaps of 10 garce, or 1,200 maunds. The heaps in the Bombay Presidency vary from 200 to 3,000 maunds, and there seems to be no reason, therefore, why, on the whole, the produce should not be measured into store at the Bombay Works with as much facility, and at as small a cost, as at the Madras Works, nor should there be any greater difficulty than at Madras in keeping up the subsequent account."* The Committee, at their inspection of a Bombay factory in June 1925, found the existing condition of affairs very much as described above. Each of the numerous licensees keeps a separate heap for each of his numerous grades of salt. During the manufacturing season these are being constantly added to or deducted from, and no account is taken except of the quantity sold. After it the salt is left in heaps of varying sizes, covering miles of country. There are no fences, and the guarding arrangements do not appear to be very efficient. The only account taken of the manufacture of the year is by an eye estimate, and it is admitted that, for the purpose of making any accurate comparison of manufacture with wastages and issues, the accounts are worthless.

* Report to the Government of India by Mr. G. Plowden on the manufacture and sale of, and tax upon, salt, page 50.

178. It remains to sum up the comparative merits and demerits of the two systems. A system of excise will almost necessarily involve a measure of freedom from control both in the process of manufacture and in the character and quality of the product. This freedom will naturally be exercised by the manufacturer to produce an article which will command a ready sale with the largest possible margin of profit, and except to the extent that it affects sales, purity will be a secondary consideration. The question is, whether such freedom is compatible with the duty to the consumer of a Government which imposes a duty of several hundred per cent on the cost of a necessity of life. It is also the duty of Government under such circumstances to see that stocks are maintained and that prices are not raised unduly high, whereas a manufacturer working for private profit will naturally seek to take advantage of shortages of stocks and if possible to corner the market. Again, the system of grading, which is born of the excise system and fostered by the system of sale by measure, has tended to check the manufacture in Bombay and Madras of a salt acceptable to the Calcutta market, which is the first step towards making India self-supporting. On the other hand, the cost price of salt is so small in comparison with the duty as to allow of a considerable degree of profiteering without complaint on the part of the consumer, and the shortages which have occurred have not so far given rise to a situation comparable in seriousness to that which resulted from the check on imports during the War. On the whole the Committee concur with the conclusions of the Committee of 1903-04 that there is no necessity for a radical change, but that it is desirable to take measures for securing more control over stocks and prices by giving Government an option of purchase whenever leases are renewed or new leases given. To this they would add a recommendation that, when both sets of factories come under the control of the Central Board of Revenue, steps should be taken to introduce into Bombay a system of weighment into store similar to that in force in Madras, coupled with a much more accurate and complete system of accounts, and that there should be made an enquiry into the possibility of improving the system of fencing and guarding in the Bombay factories. The comparative merits and demerits of the excise and monopoly systems

179. To sum up, the Committee are of opinion that the large scale production in Northern India and the system Summary of conclusions.

of manufacture at Kharaghora result in the suppy of salt of good quality at a reasonable price, and that the arrangements for sale are cheap and satisfactory. The obstacles to the supply of Indian salt to Bengal lie in—

(a) the long land journey from the monopoly sources of the north;

(b) the handicaps on transport from Bombay and Madras; and

(c) the fact that the quality of salt which is consumed in Bombay and Madras is not acceptable to Bengal and Burma.

To remedy these defects the Committee are of opinion that an enquiry should be made as to the extent to which the handicaps on the Indian manufacturer can be removed by removing the limitation on the tonnage of the vessel and by modifying and making uniform in both provinces the regulations regarding transport in bond and the charge of duty for losses on the voyage, by examining the possibility of giving lower rates of railway freight for salt loaded in returning coal wagons and by opening inland bonded warehouses for salt imported by rail. In addition to this they consider that every encouragement should be given to the manufacture in these provinces of salt suitable for consumption in Bengal, and that among the means adopted to that end should be the pioneering of such manufacture by Government, the leasing of Government pans to capitalists who are prepared to develop such manufacture, and the grant of an allowance to the local manufacturer of a sum equal to the cost to which the licensee is put by reason of Government control. They further consider that it is desirable that India should be made self-supporting in the matter of salt supply, if this end can be secured by the granting of a strictly temporary advantage to the local manufacturer, whether by way of rebate of duty or of a differential duty on imports, or both, and that an enquiry should be made into this aspect of the question by the Tariff Board. In order to modify to some extent the defective operation of the excise system, they would further recommend—

(a) that, in places where manufacture by petty licensees is inevitable, leases of Government pans should on renewal be given on condition of sale of the whole or part of the produce to Government, if demanded before a fixed date in each year;

(b) that excise licensees should when practicable be offered the option of sale to Government, and

(c) that new factories should not be made over to small holders.

Dr. Paranjpye considers that the aim of Government policy should be to make salt manufacture a monopoly in the hands of the Government and that no new steps should be taken that would militate against the attainment of this aim.

180. It remains to consider the arrangements made for the issue of salt free of duty for use in industries and agriculture. So far as the issues for textile and other industries go, the Committee have examined the rules in force in different provinces and find them satisfactory. In the case of agriculture, rules have been issued in Bombay, which appear to be on the right lines, and the Committee would suggest that they should be extended to other provinces. There remain the duty-free issues for the purpose of fish-curing, which seem to be open to criticism from two points of view In the first place the duty on salt is a duty on an article of food. It is probable that only a proportion of the salt issued for fish-curing actually passes into consumption with the fish, but in so far as it does so, there appears to be no ground of principle on which the duty-free issue of this salt can be justified when the person who consumes other articles of food and takes salt with them pays duty on all the salt that he consumes Against this somewhat theoretical argument has to be considered the practical fact that the salt is added to the fish as much for the purposes of preservation as for consumption and that the effect of the concession has been to render available for supply to the people a large amount of food-stuff that would not otherwise have been preserved. This was a matter of grave importance at a time when the duty stood at Rs. 2-8-0 and the value of the rupee in relation to food-stuffs was much higher than it is at the present day. The other criticism is that this exemption tends to be partial in its operation. Of the nine provinces of India only five have any considerable extent of coast line. Of the five, two enjoy the main advantage of the concession. Of the two, Madras and Bombay, the issues in Madras are three and a half times as large as they are in the case of Bombay. These differences are undoubtedly largely a matter of history and result from the Provincial Duty free issues

administration of an Imperial tax. On the whole, it seems to the Committee that it is desirable that the concession should be continued so long as it does not involve, as it has sometimes done in the past, any cost to the Imperial Government in excess of the actual duty remitted. At the same time it seems that it is essential that, subject to this condition, the concession should be extended to all provinces, provided satisfactory administrative arrangements can be devised, and should not be confined as at present to sea fish or to curing establishments on the coast line.

COTTON PIECE-GOODS.

The cotton excise duty.

181. Of the central excises the next in importance after the salt tax is that upon cotton piece-goods. This tax is one which calls for examination from two points of view, firstly, on its merits, and secondly, in the light of its history.

Considered on its merits.

182. From one point of view, viz., that of the consumer, it is a better tax than that on salt, inasmuch as he can within certain limits reduce consumption without injury to health, and has in fact been doing so in a marked degree in recent years. When taken in combination with the import duties on cotton goods, the tax to a great measure satisfies the conditions laid down by the Fiscal Commission for an excise. The duty is collected on accounts maintained at the mills with a minimum of cost or interference with the processes of the industry; and if they so desire it, the mill owners can pay it on issues from bond instead of on manufacture. In combination with the import duty on imported goods it affects practically all classes of the Indian population; and inasmuch as the import duty, which applies chiefly to goods of the finer qualities, is much higher than the excise duty, which applies to the coarser goods, the bulk of which are made in this country, while the coarsest of all which are made in hand-looms are free of duty, there is an element of graduation. On the other hand, it may be mentioned that the corresponding tax in Egypt has recently been removed, and that that which is understood to be still in force in Japan has been condemned by the Taxation Commission of 1920-22.

The question of its effect on the industry.

183. It has been contended with much insistence, especially during the last year, that the tax has had an injurious effect upon the cotton industry in this country and

has been largely responsible for the losses which have recently been sustained There can be little question that as a matter of history, over a period during the greater part of which the duty has been in operation, the industry has developed greatly and that it has had periods of very great prosperity The first mills were built in the fifties of the last century, and by 1880, 58 mills were in operation By 1896 their number had risen to 167 and by 1925 to 325 In the last quarter of a century the number of spindles has increased from 1,945,783 to 7,927,938, and the production of yarn from 512,385,000 to 705,488,000 pounds While the growth of spinning has been comparatively slow, the increase in the weaving branch of the industry has been very great In 1900, 40,124 looms were in operation, producing 341,177,000 yards of cloth while in 1923 there were 144,794 looms with a production of 1,725,218,000 yards The capital invested has increased meanwhile from 13½ to 43 crores, and the dividends distributed during the eight years ending 1922 amounted to over 50 crores Even as late as 1925, the last year for which complete figures are available, 60 mills out of 91 quoted in the stock and share lists issued dividends amounting on the average to 31 86 per cent on the paid up capital

On the other hand, the price of cotton all the world over is now exceedingly high, the price of cloth has outstripped the purchasing power of the people, and this has resulted in a large decrease in consumption As a result of this and other causes there has been a period of over-production of textiles all the world over, and this has been specially pronounced in India where the potential output of coarse piece goods is now 2,000 million yards as against less than 1,200 millions less than ten years ago China is another country in which production has increased, and this has resulted in the loss by India of a large market Japan is another and is alleged to have been enabled to increase its hold on the Indian market as a result of cheap labour, longer hours of working, double shifts, with a resultant reduction of overhead charges, cheap freights, bounties a falling exchange, and a command of the home market which enables it to sell goods in India at less than they cost to produce here

184 The arguments advanced in support of the contention that the duty is injurious to the industry may be reduced to three first, that the protection afforded by the The case as first argued [illegible]

tariff is inadequate; second, that the industry is heavily burdened by other taxes; and third, that the tax is a tax on production.

The argument that the protection is inadequate.

The question of protection is a question for the Tariff Board, and the degree of protection to be given is a matter independent of the propriety or otherwise of the excise duty. So far, however, as figures are at present available, they seem to indicate that the competition of Japan is chiefly with Lancashire, and that, in the case of goods produced in the Indian mills, there has so far been no large invasion of the market.

— that the industry is subject to other burdens.

The other taxes on the industry about which complaint is made are, first, the customs duties on machinery and materials used in the mills, and second, the municipal taxes in the city of Bombay. As regards the first of these taxes, the rate on machinery is only $2\frac{1}{2}$ per cent, and action has been taken in the Finance Act of 1925 to apply the same low rate to reeds and shuttles and similar articles. As regards the municipal taxes in the city of Bombay, the question is one for examination under the head of local taxation. It is clear that, if on revenue grounds a general excise duty is desirable, it would not be proper to reduce it because of high local rates in a particular area.

— that the tax is a tax on production.

There remains the argument that the tax is a tax on production. It is urged that no other industry is burdened with such a tax, that the tax represents a tax of 5 per cent on the paid-up capital, that it has to be paid whether there is a profit or not, and that, if it had not been levied in 1923, the recorded loss of the mills in the Bombay Island of 117 lakhs of rupees would have been reduced to 17 lakhs. This last argument is clearly based on a wrong assumption, namely, that the whole of the cotton excise duties was paid by the mills which made the loss. It has been seen above that two-thirds of the mills paid dividends in the year in question at an average rate of 32 per cent. If they paid two-thirds of the excise duty, then the amount available to be set off against the loss of those that worked at a loss would be, not 100 lakhs, but $33\frac{1}{3}$ lakhs.

The question whether abolition of the duty would benefit the industry.

As regards the case as a whole, there is probably some element of truth in the contention that, if the excise duty were abolished, this industry would benefit, if it is to be assumed that the customs duty on all grades of imported cloth is to remain at 11 per cent. The degree of protection afforded to the Indian manufacturer would thereby be

increased from 7½ per cent to 11 per cent in the classes of goods in which he has to meet severe competition from the foreigner, since he would be able to demand the same price for his products while the cost of production would be reduced by the amount of the excise. The Committee understand however, that the competition of the foreigner with the goods made in the Indian mills with one exception that of sheetings is comparatively small. In the case of other classes of goods therefore the price is determined by the conditions prevailing in India itself in which the main factors are the cost of production the intensity of internal competition and the purchasing power of the consuming masses.' In such circumstances the tax must be borne mainly by the consumer inasmuch as competition will impose the same limits of profit or loss to the manufacturer whether the tax is in existence or not. The chief advantage which the manufacturer might reap by the abolition of the duty would be due to the possible stimulation of demand owing to the reduction of price, but the effect in this direction of a reduction of 3½ per cent is not likely to be profound.

Considerations of history

185 The genesis and earlier history of the tax is a factor which cannot be disregarded in estimating its merits and it must be confessed that the circumstances under which it was originally imposed and adhered to in spite of public opinion and of the opposition of the Government of India has created a volume of hostility which time and changed circumstances have in no way abated and which on a broad view must seriously impair the merits of the tax.

Its history which has been fully recorded in the report of the Fiscal Commission falls roughly into three stages. From 1875 to 1882 the question in issue was whether it was legitimate that the Indian tariff which was imposed for revenue purposes should tax English cotton manufactures imported into India. This stage ended with the abolition in 1882 of the general import tariff. The second stage began with the revival of the general tariff in 1894 when as a result of pressure from England an excise duty of 5 per cent corresponding to the duty imposed on imported goods was first imposed on Indian yarns of counts above twenties the object being to impose a countervailing duty on both the yarn and the cloth which competed with imported goods. In 1896 this was changed into an excise duty on cloth, the rate

being reduced to $3\frac{1}{2}$ per cent, and the duty on coarser cloths which did not really compete with Lancashire was thus first imposed. At the same time the import duty was reduced to the same level as the excise duty. This period of equal duties continued till 1917. The third period, one of differential duties, began in that year with the raising of the import duty on cloth to $7\frac{1}{2}$ per cent. It was raised again in 1921 to 11 per cent. In 1922 an import duty of 5 per cent was imposed on yarn and a proposal to raise the excise duty to $7\frac{1}{2}$ per cent was rejected. The local trade has thus since 1921 enjoyed protection to the extent of $7\frac{1}{2}$ per cent on cloth, while in the case of yarn there is a difference since 1922 of 5 per cent. The whole case was meanwhile under review by the Indian Fiscal Commission. That body were unanimous in recommending that the duty should be abolished, and while the recommendation of the minority ended there, the majority considered that, after action had thus been taken to "clean the slate", the matter should be examined *de novo* from the point of view, first, of protection, and second, of revenue. In other words, their recommendation was that the Tariff Board should consider the rate of import duty necessary for the protection of the industry and that, when that had been fixed, the legislature should determine whether, in addition to the protective duty, a consumption duty was required, and if so, should impose a suitable rate on local production and enhance the import duty by a like amount.

Meanwhile, simultaneously with the introduction of the first measure of protection in 1916, His Excellency Lord Hardinge had given an assurance that the excise duty would be altogether abolished as soon as financial considerations permitted, and the history of the cotton duties since 1922 is the history of the efforts of the Government of India to restore the financial equilibrium which had been lost in the aftermath of the War. This pledge has been repeated since by more than one high official of the Government of India, and as recently as August 1925 by His Excellency the Viceroy himself.*

Summary.

186. To sum up: if for revenue reasons a general excise is necessary, an excise duty on locally manufactured cotton goods, coupled with an adequate customs duty on imported goods, need not necessarily be condemned so long as the burden on the consumer is not too great,

* Since the above passage was written, intimation has been received that the duty has been suspended

and is less objectionable than some others, inasmuch as it falls on the consumer and not on the producer, and is collected with a minimum of trouble It affects the industry only in so far as it has the result of increasing the price and reducing consumption, but the Government of India are pledged to remove it as soon as financial considerations permit, and therefore it must be classed by the Committee among the taxes to be abolished, and when abolished replaced by other sources of revenue

Petroleum

187 The third of the excises at present in force is one of 1 anna a gallon on kerosene oil and of 4 annas a galon on petrol, the corresponding rates of customs duty being 2½ annas and 4 annas The duties are easy to collect The former falls on all classes of the population, but more heavily on those who use considerable quantities of oil for lighting purposes The latter is partly a tax on transport, but falls principally on the classes that are sufficiently wealthy to possess or use motor cars Some objections have been raised in particular to the taxation of petrol, but the Committee do not consider that there is any urgent case for reduction. In any case, should remission of taxation become possible, they would give preference to the tax on kerosene The duties on petroleum are satisfactory

New Excise Duties—Sundry Suggestions

188 New excise duties are suggested sometimes for the purpose of restricting consumption, sometimes for the purpose of preventing a loss of Customs revenue, sometimes for the purpose of creating new sources of revenue Proposals made with various objects.

Those of the former class belong to a later chapter It is sufficient to mention in passing here the suggestion that, because India is a sink of the precious metals, an endeavour should be made to check their unprofitable use by a consumption tax This is a point for consideration, if at all, as part of the currency problem

189 The maintenance of a high revenue tariff may result in the fostering behind the tariff wall of an industry which profits at the expense of the consumer and reduces the Customs revenue An instance of such a possibility is found in the case of matches, in connection with which local factories are springing up under cover of a duty amounting to 200 per cent The statistics available to To counteract the effect of the tariff

the Committee do not indicate that the time for intervention has yet arrived, but the matter is likely to need examination by an expert body sooner or later, especially if it appears that, as a result of the duty, a heavy burden is being put on the consumer without any corresponding benefit to the Exchequer.

Excises suggested for revenue purposes.

190. Excises for revenue purposes have been suggested on candles, tea and coffee, ærated waters, coal, patent medicines, betel and tobacco. An excise on candles is undesirable because it would operate mainly only in Burma, where it is understood they are used largely in connection with religious ceremonies. One on tea and coffee would be difficult to collect, and in the former case would tend to discourage a habit for the encouragement of which the industry has subjected itself to a cess. An excise on coal would involve taxing the raw material of the industry generally and taxing a particular industry which is not at present in a position to bear it. A provincial tax of this nature would also involve the levy of a tax by the provinces in which the coal mines are situated upon their neighbours. On all these grounds the proposal appears to the Committee to be unsound. The levy of an excise on betel is a very old proposal, and has usually been combined with proposals for the taxation of tobacco, which will be dealt with later. While, however, it would clearly be undesirable to impose taxation on both at once, such distinction as can be drawn between them is in favour of betel, since Indian opinion tends to regard tobacco as the more harmful luxury. The remaining articles may be dealt with separately.

Ærated Waters.

The case for an excise on ærated waters.

191. An excise on ærated waters has been levied in England and in other European countries and has recently been recommended in Japan by the Taxation Commission of 1920-22. The plan of levying it is commonly through a stamp pasted over the mouth of the bottle. A simple plan in India would be by a tax on cylinders of carbonic acid gas issued for this purpose. It would fall largely on the upper and middle classes. The objections to it are that it might drive people who would otherwise avoid it to the use of impure water and that a multiplication

of small excises is undesirable. A majority of the Committee are of opinion that it may be noted as a comparatively unobjectionable way of raising money, but that it should be given a low place in the order of preference

PATENT MEDICINES

192. Patent medicines are generally considered a suitable subject of taxation, partly for reasons of regulation, partly because they involve a form of luxury consumption, which is occasionally harmful, and are taxed among other countries in the United Kingdom, Canada, South Africa, Italy, France, the United States of America and Japan, *though it is understood that in the last case the* abolition of the tax is in contemplation. The tax is usually levied in the shape of a stamp duty and is collected with comparative ease since advertisement is an essential of the trade In England the charge of duty extends to all medicines in which any proprietary right is claimed, or which are advertised or held out, without disclosure of the formula, as a cure for any ailment or disorder incidental to the human body The adoption of a definition on these lines would meet one objection taken to the tax, namely, that it would interfere with the business of *vaids* and *hakims* It will be clear that such interference would only arise in the case of advertised medicines, and not in that of prescriptions made up for private patients A suitable rate for the tax would be 4 annas in the rupee Its imposition should be accompanied by the application of a similar definition to imported patent medicines and an increase in the tariff rate on these to 50 per cent

The taxation of patent medicines.

TOBACCO

193. The absence of any internal taxation on tobacco is a feature which distinguishes the fiscal system of India from that of almost every other civilised country in the world The considerations which have led in other countries to the selection of tobacco as one of the principal subjects for consumption taxation apply with equal force to India. It is a typical instance of a conventional luxury whose use goes down to the poorest classes, and it is an article the consumption of which can be varied greatly both in quality and quantity according to the means of the consumer. Its use is also retarded with disfavour by large sections of the people.

The suitability of tobacco for taxation.

Though anything in the nature of exact statistics is impossible, there is reason to believe that its use in India is even more widespread than in many of the countries which subject it to taxation. In the Sikh community the use of tobacco is forbidden. All other communities use it in one form or another, without distinction of caste or creed, and in many parts, without distinction of sex.

Previous enquiries into the question.

194. The taxation of tobacco has been considered on numerous occasions in the past when the need has arisen for new revenue. But it has always been felt that the administrative difficulties of evolving a suitable system which would bring in a sufficient revenue prevented the imposition of the tax. The forms in which tobacco is consumed range from cigars and cigarettes made up in European style to forms of tobacco which can hardly be distinguished from the raw leaf. All forms of manufactured tobacco imported from abroad pay a tax, which is as high in some cases as 100 per cent *ad valorem*. In addition to the imported article, there is a considerable manufacture in India of cigars, cigarettes and smoking tobacco on European lines. To the extent that imported tobacco is used in these, the article is already subject to taxation. Of the factories where they are made the more important are up-to-date concerns using power-driven machinery. Below these come organised factories employing hand labour, and at a still lower stage the manufacture of cigars, cheroots and *biris* is carried on as a cottage industry. There are also small factories engaged in making up country tobacco into forms in which it is smoked by members of the richer classes who have not taken to European forms of tobacco. But the great bulk of the tobacco which is consumed in India is grown in small plots scattered over the country, subjected by the cultivator to a very rough form of curing, and either consumed by the grower or sold like any other form of country produce in the bazaars. It will be clear that the chief difficulties which stand in the way of tobacco taxation in India are the wholly unorganised system of production and the fact that, on its way to the consumer, the tobacco does not pass through any well recognised stage at which an excise duty could be levied.

Some of the possible methods are still impracticable.

195. The possible methods by which tobacco could be taxed in India are four in number—

(1) a Government monopoly,

(2) an acreage fee,
(3) a regular excise system, and
(4) a system of licenses.

A Government monopoly in India would be too vast an undertaking to be considered. A system of taxation through an acreage fee levied on the cultivator would have the advantage of simplicity and productivity. But administrative difficulties render it impossible to recommend this form The chief difficulty is that, though the growing of tobacco on a commercial scale is concentrated in a few well defined areas, the cultivation of tobacco for home use and for sale in the local markets is exceedingly scattered. The plots are very frequently a small fraction of an acre, and though in certain provinces the land revenue system would probably enable all cultivation to be reached, in the permanently-settled areas a special staff would be necessary, and in either case supervision of cultivation which is scattered to so marked a degree would be expensive, difficult and onerous to the cultivator. Another difficulty is that there are great variations in the yield of tobacco from a given area, which would render the imposition of a single acreage rate impossible, while a system of differing rates would again involve large expenditure on supervision and an opportunity for oppression by subordinate officials Even if these difficulties could be surmounted, unless a similar duty was imposed in Indian States, cultivators in British India would be at a serious disadvantage An objection which has been raised in the past to an acreage fee system is that it would be regarded as a breach of the land revenue settlements to impose a special tax on a special crop. It does not seem that any real breach of faith would be involved, because an essential distinction must be drawn between a charge in the nature of land revenue, which is meant to fall on the cultivator, and one which is expected to be passed on to the consumer. It is doubtful, however, if the cultivator would appreciate the distinction, and for this reason an acreage duty would probably excite considerable resentment and is not to be recommended.

196. There remain the systems of excise and of collecting an indirect excise through a system of licensing. Both these systems have been repeatedly considered, but have been rejected, the first, because there was no organised

In the case of a combined system of excise and licensing, conditions have changed.

industry to which it could be applied, and the second, because it was considered that no system of licensing would yield a revenue sufficient to make it worth while. The position of affairs would appear to have altered in both these respects, in the first place because a considerable local industry has grown up behind the tariff wall, and in the second because there is a considerable amount of actual experience of excise systems within the limits of India under which a by no means inconsiderable revenue is collected.

The increase in the tariff.

197. In connection with the first of these points the tariff has been increased by successive steps from 5 per cent on cigars and cigarettes in 1909 to 50 per cent in 1916, 75 per cent in 1921 and to a figure which amounts in some cases to 100 per cent in 1925.

Among the results has been the practical extinction of imports of cheap cigarettes, a large increase in the import of unmanufactured tobacco for use in cigarette making, and a large development of the local manufacture of cigarettes, which is estimated to amount to about 4,500 millions per annum.

Taxes on tobacco actually levied in India.

198. Meanwhile in the city of Bombay a revenue of 4.85 lakhs is derived under a system of taxation which has been in force since 1857 through a town duty of Rs. 7-8-0 a maund levied at bonded warehouses, coupled with a nominal license fee. In French India, while cultivation and manufacture and possession are not restricted, the privilege of vend of tobacco is sold by auction under conditions which give each shop a practical monopoly of a local area. In Portuguese India a customs duty is levied and a license fee charged for wholesale or retail vend. The Committee's information regarding the imposition of a tax of the same kind in the Indian States is incomplete, but they have received particulars from fifty-eight States that impose such taxation. The commonest form is an import duty, which is coupled in a few cases with a tax on local production, but more often with a system of licensing vend. In two cases complete monopolies are given. The States that receive the largest revenues from this source are Travancore, Cochin, Nawanagar and Patiala. In Travancore and Cochin, cultivation is prohibited and a duty is levied, in the former case on tobacco entering the State, while in the latter both wholesale and retail shops are sold by auction. In Nawanagar the monopoly of the right of collecting duties both on imported

and on locally-made tobacco and of selling the same is sold by auction. The lowest rate of duty for ordinary tobacco leaves, whether imported or locally produced, is Rs. 10 per maund, and this rises to Rs. 16 for cleaned, sifted and sliced tobacco. Couplde with this are rates of one rupee per thousand for *biris*, 50 per cent *ad valorem* on country made cigarettes, and 8 annas per pound on scented tobacco and other special sorts. In Patiala, free cultivation is permitted, but the cultivator is allowed to sell his crop only to a licensed vendor and the State is divided into monopoly areas, the sole privilege of vend in which is sold by auction. The return in revenue under these systems varies from 2.2 annas per head in Patiala, and 3 annas a head in French India to 6 annas a head in Nawanagar and 8.1 annas in Travancore. Some idea may be gained of the possible revenue effects of introducing a similar system into British India when it is remembered that one anna per head on the population of British India would give a revenue of 154 lakhs.

It would seem to follow from these figures that, while there is now a manufacturing trade which could bear a light excise without hardship, there is also reason to suppose that the introduction of a licensing system would not be so unproductive of revenue as it has hitherto been expected to be.

The outlines of a system for general adoption—excises at factories.

199. In describing a system on which it would appear to be practicable to introduce the taxation of tobacco, it will be convenient to deal first with tobacco manufactured in European fashion in regular factories. As has already been indicated, there are various grades of factory, the most important being the large cigarette factories which have been established to supply the Indian market. These establishments manufacture cigarettes of various grades and smoking tobacco. Part of their output consists of cigarettes made wholly of imported tobacco or containing a large proportion of such tobacco. Another part consists of cheap cigarettes intended for consumption by the poorer classes and competing largely with *biris*. These are made chiefly of Indian tobacco. Where the factory is an organised one, using power driven machinery, there should be no difficulty in levying an excise on its products, based on the factory books. The rate at which the excise would be levied would no doubt be fixed after a detailed examination of the conditions

of the trade. The rate imposed in the case of the better class cigarettes would have reference to the tariff rates on imported cigarettes, while the excise duty on the cheaper cigarettes should be such that it would not hamper the factory unduly in competing with *biris*. Meanwhile the cigar trade has suffered severely owing to the loss of its overseas markets since the War, and to the levy of duty in England on the weight, and careful consideration would have to be given to the amount of duty which the trade could bear.

In the case of the smaller undertakings and those which are carried on as cottage industries, it would be difficult to levy a regular excise without a degree of supervision which would absorb a large proportion of the proceeds and at the same time hamper the industry. It may, however, become necessary to deal with these undertakings if it is found that the excised factories are prejudiced in competing with hand-made articles. It would be well, therefore, that in any legislation imposing a tobacco duty, power should be taken to levy a fixed fee based on the presumed output on all places where tobacco made up after the fashion of cigars, cigarettes or pipe or cigarette tobacco as used in Europe, is manufactured by hand.

Licensing of sale of country tobacco.

200. For the taxation of other forms of tobacco, the only feasible method appears to be to institute a system of licensing, leading ultimately to a system of selling the monopoly of retail vend in specified areas. A sudden attempt to introduce at once the full system of a monopoly of retail vend might be dangerous. An essential preliminary is to concentrate the dealing in tobacco. If, therefore, it is intended to levy a tax on country tobacco in any area (and the system has the advantage that it can be introduced in particular areas without being extended to the whole of India), the first step should be to impose a simple license tax with a fixed fee on all retail vendors of tobacco. The rates would probably have to vary, since, except in urban areas, there are no special shops for the sale of tobacco, and it might be advisable to provide a fee varying roughly with the turnover. At the same time power should be taken to forbid the retail sale of tobacco by any person not holding a license. At this stage the sale of tobacco which has paid a customs or excise duty should be covered by the same license as that for country tobacco.

After the system of fixed fee licenses had been in force for some time and the trade in tobacco had been brought under some measure of control there are various further stages which could be introduced for the purpose of developing the revenue The next stage would be something akin to the system of French India, the sale of a monopoly of vend by auction The Cochin system, which divides licensees into wholesale and retail and compels the retail licensees to buy from the wholesale licensees, carries control a stage further

The full system, which would be on the lines of that in force in Patiala, would involve the demarcation of shop areas and the sale of the monopoly of retail vend within such areas It would be necessary to provide a limit of private possession and to enact that the cultivator should only sell to a licensed monopolist wholesale or retail, or to some one licensed to trade in tobacco At this stage it would probably become necessary to take measures to watch the disposal by the cultivator of his crop Further, the increasing measure of taxation involved in the monopoly system would necessitate the separation of licenses for the sale of manufactured tobacco which had already paid customs or excise duty, from that of country tobacco The former should continue to be sold under a fixed fee license though the same dealer might hold licenses of both kinds

This development would bring the taxation of tobacco almost exactly on a par with that of *tari* in the provinces where there is no tree tax, or of *pachwai*, or of country spirit in areas where outstills still exist The system is not an ideal one, but the experience of areas where similar systems are in force affords a hope that it would be workable and would bring in a considerable revenue

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CHAPTER VIII.—TAXES ON CONSUMPTION—RESTRICTIVE EXCISES.

A policy of restriction may also be very effective from the point of view of the revenue.

201. The present chapter relates to excise duties that are imposed with other objects as well as that of raising revenue, the commonest of such objects being the restriction of consumption of intoxicants, to which considerations of revenue always give way. The mere fact, however, that high rates of duty are used as a means of reducing consumption of itself results in making these excises a very powerful engine for the raising of revenue. As a consequence, although the Indian peoples are among the most sober in the world, and the system of excise under which they live is one of the most restrictive in existence, the revenue from excises on liquors and drugs has, for more than half a century, contributed from 6 to 13 per cent of the total tax revenues of the country.

The articles restricted.

202. For a clear understanding of the excises under discussion, it is desirable to define the articles on which they are imposed, which do not fall under quite the same categories as those that are the subject of excises in other countries.

Country spirit.

The most important of these is what is known as 'country spirit'. This is plain spirit distilled in India from a recognised country spirit base, generally *mahua* or sugar, reduced to a fixed issue strength and excised at rates which vary with the particular localities to which it is issued, the cause governing the variation being the extent of the danger of illicit practices in particular areas. This spirit is required to be sold at the strengths at which it is issued, and colouring or flavouring it is prohibited. A further regulation, which has had widespread effects from the point of view both of temperance and of revenue, is the prohibition of possession, otherwise than on licensed premises or under cover of a permit, of any quantity in excess of a fixed low limit, generally one quart. This has the result, among others, of strictly limiting consumption off the premises.

In contrast to country spirit is 'foreign liquor', which is of two kinds, first, what is imported, and second, what is locally made. The latter category generally includes, in addition to locally-made imitations of such spirits as whisky, brandy, gin and rum, all spirits which are in any way sophisticated, and all these liquors until recently paid duty at the tariff rate. The characteristic of 'foreign liquor' is that, in contradistinction to 'country liquor', its chief sale is for consumption off the premises, largely with meals, by persons who follow European habits of life, the licenses for 'on' sales in places where there are no such consumers being very rigidly restricted. Another peculiarity is that the duty levied on imports goes to the Government of India, while that levied on the locally-made article goes to the Provincial Governments. Foreign liquor.

The next most important class of intoxicants consists of the country fermented liquors, which are of two kinds, the first being *tari* or toddy, or the fermented juice of cocoanut, palmyra, date or other palm trees, and the second, rice beers. *Tari* is the sap or juice extracted either from the stem of the tree or from a spathe, which, unless measures are taken to prevent it, starts to ferment practically as it drops into the vessel put to receive it, so that when the pot is taken down in the morning, the *tari* is equal in strength to a light beer, and this increases as the process of fermentation progresses. Tari.

The other country fermented liquor, which is known by a great variety of names, is made by the application of an indigenous malting agent to a preparation of rice or millet. The first produce of the process is as strong as whisky, and it is sometimes drunk in this condition, but, more commonly, it is largely diluted before consumption. This liquor is in common use in Burma and Assam and over a large part of Bengal, and it is found in various other parts of India, generally along the hill ranges. Rice beers.

Hemp drugs are consumed in three forms, which contain varying percentages of the active principle. This principle is found in a resin which collects on the flowering heads of the female plants of the *Cannabis sativa*, if they are not fertilised by male plants. *Charas*, the strongest form of the drug, consists of the resin collected almost pure by different processes. *Ganja*, the commonest kind, consists of the whole flowering head Hemp drugs.

pressed or rolled together, so that the resin makes it adhere. *Ganja* varies considerably in strength with the variety of the plant and the method of preparation. *Bhang* should rightly be the powdered leaf and flower of the wild plant, and should contain very little of the intoxicating principle, inasmuch as, the female plant having been fertilised, the resin should be little in evidence. But it will be obvious that, if the male plants are rooted up or even thinned out partially, there may result a state of affairs under which *bhang* contains quite a large proportion of the intoxicating element.

Opium.

Opium is the inspissated juice of the poppy, which is collected from cuts in the capsules and made up into cakes of a uniform consistency in a Government factory.

History of the excise systems.

203. The history of excise in India is one of numerous experiments and enquiries, of which the three principal were those of the Royal Commission on Opium of 1893, the Hemp Drugs Commission of 1894 and the Indian Excise Committee of 1905-06. The details of the development vary so much from time to time and from province to province that it is impossible in a brief space to give anything like a comprehensive account of them. It will perhaps be sufficient for the present purpose to indicate the objects sought to be achieved and the principle means by which they have been brought about. The objective is the reduction of harmful consumption of licit or illicit intoxicants, and the means pursued, in the case of the former, the steady pressure of increasing taxation coupled with a continuous reduction in the facilities for obtaining intoxicants, and in that of the latter, the steady pressure of preventive measures of increasing efficiency.

The chief means of restriction.

204. Starting from the farming system, which the British Government inherited from their predecessors, the chief means by which control and reduction of consumption has been sought to be achieved may be stated to be four, namely, concentration of production with a view to control, separation of the privileges of manufacture and vend, reduction of vend areas, and limitation of the number of places of sale, the hours of sale and the strength of the intoxicants.

Country spirits—control of production.

205. In the case of country spirits, under the farming system the farmer purchased for a lump sum the right to set up as many places of combined manufacture and vend as he found profitable. In the profitable areas he sold

as much as he could, the out-of-the-way tracts he left to the illicit distiller, so that the system was calculated to secure a maximum of consumption and a minimum of revenue The first step towards securing control of production, which consisted in levying a charge based on the size of the still or the size and the number of the fermenting vats was ineffectual, and no real control was secured until manufacture was concentrated by bringing all the distillers into Government compounds known as sadar distilleries, where a rough and ready process of imposition of a direct duty on the liquor was employed As these distilleries developed, the larger men got more and more of the business into their own hands until in many cases they were able to set up practical monopolies, using larger and more efficient stills Meanwhile, the distillation of spirit was also developing as a by-product of the growing industry of sugar refining Thus, the next stage in the development was one of single distilleries capable of supplying large areas At this stage, the difficulties common to any attempt to combine free competition with control of a trade began to manifest themselves in attempts to secure and hold particular shops, coupled with alternations of cut-throat competition and combinations to raise prices Of the various means adopted to deal with this difficulty, the one which has been most commonly accepted, as a result of the recommendations of the Excise Committee of 1905 06, was that of contract supply, under which the private distiller using his own premises or a contractor using a Government distillery makes a contract with the Government to supply for a term of years a pure spirit at fixed strengths to all retail shopkeepers in a given area at a fixed contract price, to which the Government add the duty, and the retail vendor, who has secured his privilege of vend under circumstances to be described hereafter, adds a sum sufficient to recoup his outlay and yield him a profit Thus the system is really one of managed monopoly

Limitation of places of vend.

206 Parallel to these efforts in the matter of control of production, and intimately connected up with them, there was proceeding a process of limitation and control of the agencies for vend These began with farms extending to whole districts These farms were broken up into farms for tahsils and later for groups of villages, until finally there was attained a system of sale by single shops

Meanwhile, the system of supply to holders of shops had been gradually developed from one of direct connection with the producer to one under which the shopkeeper had no concern with him except to obtain liquor at a fixed strength and price from the particular wholesale depot to which his shop was attached.

System of disposal of licenses.

207. The method of disposal of licenses is one over which great controversies have raged. The Excise Committee of 1905-06, after an exhaustive examination of the subject, found that of the systems tried up to that time the system of auctions, which had been commended in some quarters by temperance reformers, was the most effective for securing the Government dues and preventing fraud and chicanery and the establishment of vested interests, but they recommended cautious experiment with a system of surcharge, under which the amount paid for the privilege of vend depended on the quantity sold. Since they reported, experiments with systems of fixed fees have established the correctness of their condemnation of that system. A system of surcharge, but on a sliding scale so arranged that for each unit of quantity issued to a particular shop the percentage of profit accruing to the vendor is less than that on the previous unit, has shown itself successful from both the temperance and the revenue points of view, where it has been worked with scrupulous care under the control of a highly efficient staff, though there is evidence to show that where this is wanting the system is open to abuse. The rationing system is a purely temperance measure, and its success depends upon the assumption that the shopkeeper, being rationed himself, will ration his customers. Experience alone will show whether it is possible to develop it, as is the intention, into a system of registering consumers. Meanwhile, it is agreed on all sides that its success postulates an effective preventive staff and that it is unsuited to areas in which illicit supplies are readily available.

The results as illustrated by statistics.

208. It may be useful to conclude this review of the general tendencies of the excise policy by a few figures of the results. In giving them, however, it is important to note that, owing to the variations of the areas under different systems, it is extremely difficult to secure an accurate basis for comparison, and that the existence in practically every province of comparatively minor areas which are still under less advanced systems is apt to cause any general statistics even for a province to be misleading.

In the figures that are given below, an attempt has been made to limit the examination of the question to the broader issues, and wherever possible, to compare only like with like.

209. The stages of the development may, for the present purpose, be divided roughly into three · (1) the first, a long stage of enquiry and development under the auspices of Provincial Governments, resulting in a considerable variety of systems, prior to 1905-06; (2) a stage of more uniform development on the lines laid down by the Government of India with reference to the report of the Committee of 1905-06 from that date to 1919-20; (3) a stage of intensive restriction, in some cases with prohibition as the avowed goal, from 1919-20 to date — The stages of development.

210. One of the most important items of the development that has been sketched is that of the imposition of a fixed duty on the consumption and the gradual development of this more stable element in the taxation at the expense of the less stable item, the fee for vend The following figures compare in the case of country spirits, for selected years and for areas which have been continuously under distillery systems, the average rates of duty per proof gallon with the proportion borne by direct taxation to the total yield. — Rates of duty

Province.	Average rate of duty per proof gallon.			Percentage proportion borne by direct taxation to the total yield		
	1906-07.	1919-20.	1923-24	1906 07	1919-20	1923-24
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Rs. A P	Rs A P	Rs A P			
Bengal	4 11 0	10 7 2	16 5 2	64	85	89
Central Provinces ..	2 8 8	8 14 0	14 15 0	45	60	62
Punjab	3 13 7	5 3 2	14 0 5	65	59	59
United Provinces.. ..	2 15 1	6 5 4	10 12 0	70	63	74
Bombay	3 9 1	7 2 7	10 10 3	59	73	66
Sind	4 15 11	7 1 8	10 9 10	96	61	56
Burma	3 14 6	6 7 9	9 3 7	83	66	60
Madras	4 10 9	8 0 0	9 3 0	75	72	62
Bihar and Orissa.. ..	..	2 15 1	5 12 3	..	63	72
Assam	..	4 6 5	4 15 7	..	62	61

In the latter respect the first three places are taken by Bengal, the United Provinces and Bihar and Orissa, the three provinces in which the sliding scale system is in force. The remarkable feature of the figures for the other provinces is that in the Punjab an average duty of Rs. 14 yields a lower proportion of the total revenue than one of Rs. 5 in Assam or one of Rs. 9-3-0 in Madras. The conclusion suggested by such a state of affairs is that very large sums are paid for the privilege of vend for some reason that is out of the normal, as that each shop commands a monopoly of a wide area or that the license gives cover to extensive illicit sales. These conclusions find some support in the review by the Punjab Government of the Excise Report for 1923-24, of which the following are extracts: "Hitherto attention has been fixed on this remarkable reduction in the consumption of licit excisable articles. The fact that at the same time the consumption of illicit excisable articles has increased at a rapid rate has not been sufficiently noticed. Consequently, there has been a tendency to complacent satisfaction at the supposed improvement in the habits of the people. The facts disclosed in the report as to the existence of illicit distillation and smuggling indicate that there is less reason for satisfaction. . . . There is reason to fear, therefore, that by raising the duty as high as it has been raised, and by lessening the facilities for the purchase of all licit excisable articles, the consumption of some of those articles may actually have been increased. . . . It is possible that the duties on the more important of the excisable articles are now so high that Government is not only not obtaining the highest amount of revenue, but the amount consumed is greater than it might be with a lower duty."

On the other hand, it would appear that an increase in the direct duty might with advantage be imposed in Bihar and Orissa and Assam, and that, if the result was a reduction in the sum paid for the privilege of vend, that would be all to the good.

Number of licenses.

211. The next statement compares the total number of country spirit shops in different provinces at different periods and the area and population per shop for the provinces as a whole and for the districts, respectively, in which the one or the other are the highest.

Province	Number of country spirit shops			Area per shop in square miles			Population per shop		
	1906–07	1919–20	1923–24	1906–07	1919–20	1923–24	1906–07	1919–20	1923–24
Madras .	11,451	6,107	6,012	12	23	24	3,338	6,916	7,0[illegible]
Bombay	2,514	1,88[illegible]	1,631	30	40	48	6,094	8,670	9,816
Sind	293	182	126	161	25[illegible]	275	10,959	19,302	26,024
Bengal	3,060	1,134	979	[illegible]	68	78	16,676	41,175	47,[illegible]
United Provinces	5,581	4,003	2,615	19	27	41	8,537	11,331	17,315
Punjab	1,292	666	517	74	114	186	15,795	31,1[illegible]	40,163
Lower Burma	121	152	155		427	425	.	[illegible] 607	31,652
Upper Burma	36	20	28		1,231	1,083	.	21,950	[illegible]
Central Provinces	5,270	3,52[illegible]	2,190	19	28	40	2,213	3,916	5,587
Assam	.	188	187		261	265		[illegible]	40,139
Bihar and Orissa		1,841	1,7[illegible]		45	48		18,211	19,[illegible]

Province.	District in which the area per shop is the highest	Area per shop in the district in square miles	District in which the population per shop is the highest	Population per shop in the district.
Madras ..	The Nilgiris	215	[illegible]	[illegible]
Bombay .. .	Ahmednagar	[illegible]	[illegible] ..	[illegible]
Bengal	J[illegible] .	[illegible]	[illegible] .	[illegible]
United Provinces.	Alm[illegible] .	[illegible]	[illegible] .	[illegible]
Punjab . ..	[illegible]	[illegible]	[illegible] . ..	[illegible]
Burma	Akyab .	[illegible]	[illegible] . .	[illegible]
Central Provinces	[illegible] . ..	[illegible]	[illegible]	[illegible]
Assam	[illegible] ..	[illegible]	[illegible] . ..	[illegible]
Bihar and Orissa.	[illegible] ..	[illegible]	[illegible] . .	[illegible]

It will be seen that in the [illegible] respectively nearly [illegible] persons to a single country [illegible]

in the districts named extreme reduction in the number of shops coupled with the restriction of private possession results in something nearly approaching prohibition.

'rogress f revenue nd consumption ompared.

212. The third statement compares the progress of the revenue from country spirits with that of the population and that of the consumption for different provinces in the areas under the more advanced systems.

Province.	Population (in thousands).					Consumption (in 1,000 gallons)*					Revenue (in 1,000 rupees).				
	1906-07.	1919-20.	1923-24.	Percentage of increase or decrease of column (3) over column (2).	Percentage of increase or decrease of column (4) over column (3).	1906-07.	1919-20.	1923-24.	Percentage of increase or decrease of column (8) over column (7).	Percentage of increase or decrease of column (9) over column (8).	1906-07.	1919-20.	1923-24.	Percentage of increase or decrease of column (13) over column (12).	Percentage of increase or decrease of column (14) over column (13).
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Madras ...	29048	31364	32215	+ 8	+ 3	1105	1697†	1277	+ 53	— 25	6904	18890	18423	+172	— 2
Bombay ...	13100	13669	13402	+ 4	— 2	2092	2281	1534	+ 9	— 33	8426	22359	24543	+166	+ 9
Sind	3211	3513	3279	+ 9	— 7	196	216	129	+ 10	— 40	1019	2315	2449	+128	+ 6
Bengal ...	16137	16770	17072	+ 4	+ 2	458	505	455	+ 10	— 10	3341	6229	8201	+ 86	+32
United Provinces.	25223	25966	25150	+ 3	— 3	868	627	231	— 23	— 63	3647	6481	3363	+ 78	— 48
Punjab ...	18894	19051	19311	— 4	+ 7	402	782	154	+ 94	— 80	2398	6731	3717	+181	— 45
Burma ...	1338	1587	1728	+ 11	+ 9	42	42	58	...	+ 38	193	419	897	+117	+114
Central Provinces.	5022	5309	5592	+ 6	+ 5	791	604	228	— 24	— 62	4498	6723	5490	+ 49	— 18
Assam	...	5609	6293	.	+12	...	190	146	...	— 23	...	1342	1103	...	— 18
Bihar & Orissa.	...	26810	27110	...	+ 1	..	971	763	...	— 21	...	4524	6331	...	+ 40

* Total issues have been taken as the consumption.

† An abnormal year for Madras. It was 1,432 in the previous year and 1,462 in the subsequent year.

It will be seen that between the first two dates there was a general tendency towards increase in the consumption, which, however, was much less than the increase in the revenue. In the second period there has been, elsewhere than in Burma, a marked fall, accompanied in some cases by a fall in the revenue, in others by a retardation of the increase.

213. The last statement compares the average number of cases of illicit distillation for the years 1917-18 to 1921-22 with that for 1922-23. Illicit production

Province	Average for the years 1917-18 to 1921-22	1922-23
Madras	1,435	2,001
Bombay	570	913
Punjab	127	205
United Provinces ..	223	103
Bihar and Orissa ..	323	1,120
Central Provinces	175	1,215
Total .	2,853	5,557

It seems desirable to add here a few quotations illustrating the significance of these latter figures. It is recorded in Bombay that the cases detected "are only a fraction of those that actually occur".* In the Central Provinces "for one case detected doubtless fifty escape detection".† The Excise Administration Report of the United Provinces for 1923-24 has the following: "A careful examination of the reports received from time to time suggests that there is hardly any district where illicit supplies are not supplementing lawful consumption . . . . The serious spread of this offence receives attention in no less than 31 district reports for the year under review. . One Assistant Commissioner estimates that for every case detected nine go undetected. His conclusions are borne out by district officers and by the facts", and it is estimated elsewhere that the illicit consumption was as large as the licit. The Punjab Excise Administration Report for 1923-24 states: "Illicit distillation is now being conducted on a scale and in a manner which was not known in the past. Although the number of raids and arrests has greatly increased, the number of offenders detected is only a fraction of the total number of persons engaged

* Bombay Excise Administration Report for 1923-24, page 5.
† Central Provinces Excise Administration Report for 1923, page 2.

in these operations." As an instance of the general results, it is estimated that the quantity of liquor illicitly distilled in certain districts in 1923-24 was 54,000 gallons, while the total licit consumption in those districts during the same year was 79,000 gallons An experienced Commissioner says that "the consumption of illicit liquor is a crying evil. It leads to grave disorders, murders and outrages of every kind". He adds elsewhere: "Every Sikh village in the Central Punjab resorts to illicit distillation." Madras records in the Ceded Districts "a heavy decrease in the consumption of licit liquor, consequent on the activities of the non-co-operation agitators" but adds that "the increase of illicit cases detected shows that there was probably no reduction in the consumption of liquor. . . Disrespect for law and order and sympathy with the law-breakers on the part of the general public are most disquieting features of present-day conditions, and operate as a heavy handicap to officers in their attempt to prevent and detect excise offences."* Of Burma an experienced officer says: "Right along the railway line from Rangoon to Moulmein are a series of hills and you will find that every little gully has an illicit still."

It is possible that part of the increase is due to increased activity on the part of the excise staff, but the conclusion is unavoidable that progress in the direction of temperance requires a full consideration of all the attendant circumstances, and that there is a very serious danger of a heavy loss of revenue with little corresponding advantage.

Foreign liquor.

214. In the case of foreign liquor, restriction has been effected by increases in the tariff rate and by restrictions on the number of shops, especially those for sale for consumption on the premises otherwise than with meals. The following table illustrates for typical years the tariff rate on spirits, the total quantity of spirits imported, the total number of licenses issued, the number out of these that were of the nature of public house licenses, and the revenue derived from foreign liquor.

* Madras Excise Administration Report for 1921-22, page 5.

Foreign Liquor.

—	1906-07	1919-20	1923-24
Tariff rate on spirits per proof gallon	Rs 7	Rs 11-4-0	Rs 21-14-0
Total quantity of spirits imported in gallons	1,306,992	1,433,660	1,300,249
Total quantity of locally made foreign spirits issued in gallons	54,893	526,312	111,665
Total number of retail licenses issued	2,983	3,569	4,669
Number out of these that were public house licenses	Not available	413	362
Revenue derived from foreign liquor by Local Governments*	Rs 27,51,412	Rs 80,89,3?6	Rs 81,36,?77

* Includes duty on locally made foreign liquor and license fees on imported and locally made foreign liquor.

215 There are two features of this part of the administration that call for attention. The first arises from the fact that the duty levied at the custom houses is credited to the Government of India, while the fees for the privilege of vend are credited to the provinces. Certain provinces, for the sake both of restriction and of revenue, have imposed fees which are based on the sales in the shops, and in one case cover all imports, including those by clubs or private individuals. In other words, they have imposed an addition to the tariff rate. In the opinion of the Committee, if the tariff rate is placed at a figure lower than that to which it could be raised in accordance with the policy of the Government of India, then it is for the Government of India to make an increase, but the fee for vend, which should approximate as closely as possible to the real value of the license, should be taken at a fixed rate or in a lump sum which will not partake of the nature of a direct addition to the duty. The tariff rate.

216 The second difficulty that has arisen has to do with the manufacture and issue of locally-made imitations of imported liquors. The recommendation of the Excise Committee of 1905-06 was that all these sophisticated liquors made in India should pay duty at the tariff rate and at the same time be free from the restrictions on transport and possession which form part of the administration Difficulties connected with the issuing of local manufactures.

of country liquor. They further recommended that, in order to enable each province to secure the duty on its own consumption, arrangements should be made, wherever there was scope for them, for the opening of bonded warehouses, on issues from which these liquors would pay duty. Since the Reforms and the large recent increases in the tariff rate, these arrangements have broken down. Duties on locally-made imitations of foreign liquor have been reduced in several instances and are now lower than the tariff rates. This has necessitated the reintroduction of control over transport and possession, and complex arrangements have had to be made between provinces for the securing of the duty on inter-provincial issues. The difficulties resulting are far greater than the importance of the subject warrants. The making of these imitation liquors is not a business that is entitled to protection, and it seems to the Committee that it would be much better to revert to the arrangements under which locally-made imitations of foreign liquors were treated in the same way as imported liquors were. They would go further and suggest that, inasmuch as the root of the difficulty lies in the fact that the duty on the imported article goes to the Government of India and that on the locally-made article to the Provincial Governments, it would be best, in any rearrangement of the proceeds of taxation that may be made, to arrange that both should be credited to the same head, and so to put an end to the unhealthy competition that results from the division.

Tari. 217. In the case of country fermented liquors, the progress towards control has been much less than that in the case of spirits. The only method that has been devised for levying anything approaching a direct tax on *tari* consists in requiring the trees which are tapped for particular shops to be numbered, and levying a tax based on the average production of each tree tapped. This has proved in Madras a useful method of restriction and a very effective machine for the collection of revenue. The realisations under *tari* have increased for ten-year periods as shown below :—

Year.	Tree-tax.	License fees.	Total realisations.
	RS. (LAKHS).	RS. (LAKHS).	RS. (LAKHS).
1903–04 ..	43·18	47·17	90·35
1913–14 ..	79·51	91·47	170·98
1923–24 ..	105·02	131·14	236·16

In Bombay, which originated the system, the progress has not been on quite the same lines, as will be seen from the following figures —

Year		Tree tax Rs (LAKHS)	License fees Rs (LAKHS)	Total realisations. Rs (LAKHS)
1903–04	..	9 75	5 67	15 12
1913–14	.	13 66	6 94	20 60
1923–24	..	18 57	18 27	36 84

The Excise Committee of 1905 06 found, from a scrutiny of the figures then available to them, that if the statistics were to be believed, the shopkeepers were paying increasing sums for the privilege of vending continually declining quantities of liquor The figures given above, which show an increase of 222 per cent in the sum paid for the privilege of vend, while the payments of tree tax have advanced by only 90 per cent, appear to point to a similar conclusion, and this is confirmed by the reports of the Excise Commissioner The fact appears to be that a system of this kind can only be successful when it is worked through the agency of a considerable staff under the most effective control It is mainly for this reason that the trials made of the system prior to 1905 06 in Bihar, the Central Provinces and the United Provinces were unsuccessful The further trials made since the Excise Committee of 1905 06 reported have given better results especially in the Central Provinces and the Committee would urge that they be persisted in wherever there is any considerable consumption of this liquor The case of Burma differs somewhat from those of the provinces mentioned above because it is complicated by difficulties in dealing with the *dhani* palm in addition to the high cost of the staff In this case, the Committee would recommend that the question be reconsidered on the following lines In the first place, an endeavour should be made to introduce the tree tax system gradually, beginning with town shops in Upper Burma, for which a comparatively large number of trees within a small radius are marked Once the system is established in relation to the town shops, it might be possible to extend it further afield In this latter respect the Committee observe that the Crime Enquiry Committee have already recommended the withdrawal of the orders exempting *tari* from taxation in Upper Burma outside a radius of 5 miles of a shop and they would suggest the introduction of monopolies of vend as a step towards the introduction of the tree tax system

The introduction of this system to the case of the *dhani* palm in Lower Burma should wait, at any rate until the initial difficulties have been got over in the case of the palmyra tree.

It seems to the Committee necessary to press the desirability of some action towards greater control over this intoxicant, in view of the fact that every increase in duty on one class increases the resort to the nearest alternative available. Nor is evidence wanting of such increasing resort to *tari*. Recent reports record a remarkable increase of consumption in Bombay and a 50 per cent increase in the number of cases of illicit tapping in Madras.

Rice beer.

218. The remark just made applies with even greater force to the country beers which, as will be seen from the description already given, afford a ready substitute for spirit. One main difficulty in securing adequate control over these liquors lies in the fact that, as made in India, they will not keep. It is understood, however, that means have been discovered by which in Japan a similar liquor is made in central breweries and treated in such a way as to acquire the necessary keeping properties. The Excise Committee of 1905-06 recommended that experiments should be made on similar lines. It is understood that such an experiment has now been commenced in Burma.

Reduction in licenses for country fermented liquors.

219. The table below illustrates for selected years the number of shops for the sale of *tari* and rice beer in different provinces:—

Province.	Number of shops for the retail sale of *tari*.			Number of shops for the retail sale of rice beer.		
	1906-07.	1919-20.	1923-24.	1906-07.	1919-20.	1923-2
Madras	18 685	10,741	10,531	..	..	..
Bombay	1,303	1,069	1,076	..	..	..
Sind	8	5	9	..	..	..
Bengal		629	564		1,206	1,201
Bihar and Orissa ..	13,661	5,709	5.562	1,680	353	329
Assam		..	5		..	..
United Provinces ..	4,251	2,463	2,002	..	10	7
Punjab	..	..	..	41	17	15
Burma	885	586	511	392	355	320
Central Provinces.	1,140	477	426	..	..	..

These figures exclude those of tree-foot booths in Bombay, shops for the sale of unfermented *tari* in Bengal, Bihar and Orissa and Assam and home-brewing licenses in Bengal, Bihar and Orissa and the Punjab. In addition, there is no restriction on home-brewing in Assam or on tapping for *tari* in Upper Burma except within a radius of 5 miles of the town shops.

220. Restriction and control of hemp drugs began with the Commission of 1894, and in the course of the next twenty years cultivation has been limited to five areas, namely, one near Naugaon in Bengal, another near Khandwa in the Central Provinces, a third near Ahmednagar in Bombay and a fourth and fifth in the North Arcot and Guntur districts of Madras. Meanwhile the importation of *charas* has been brought under strict control through bonded warehouses in the Punjab, and over the south of India the wild plant, from which *bhang* is made, has been rooted out and has disappeared. In the north, its growth continues all along the *terai* as well as in many of the plains districts. Hemp drugs

At an early stage of the control, a difficulty arose in most cases through the fact that it was not possible to arrange for the cultivator to sell direct to the licensed vendor. Consequently, there grew up groups of middlemen at the store-houses who secured an undesirable control over the trade to the detriment both of the grower and of the seller. The cure for this has been found either in Government purchase of the crop or in the introduction of some system of contract supply, but even the arrangements made on the latter basis do not appear to be entirely satisfactory from the complaints received by the Committee regarding the prices charged by the co-operative society of *ganja* growers at Naugaon to vendors in other provinces. On the whole, the arrangements for control amount to something so closely resembling a monopoly that it seems to the Committee that, if trouble with the middlemen continues, there can be little objection to making an end of it by converting the system into a complete monopoly.

In the case of this drug, the increases in the direct duty have been remarkable. In spite of them, consumption has not declined to the extent that might have been expected, and this is reported from more than one province to be due to the prohibitive prices of country liquor resulting in resort to hemp drugs as an alternative. The following table illustrates for typical years the rates

imposed in the case of *ganja* and *charas*, whichever is most commonly used, the number of shops opened and the total realisations :—

Province.	Name of drug.	Rate of duty per seer.			Number of shops.			Total realisations.		
		1906–07.	1919–20.	1923–24.	1906–07.	1919–20.	1923–24.	1906–07.	1919–20.	1923–24.
		RS.	RS.	RS.				RS.	RS.	RS.
Madras ..	Ganja.	5	17·5	20	636	408	424	4,78,718	15,26,499	14,87,587
Bombay ..	Ganja.	5	15	22·5	571	569	517	4,44,014	16,78,961	19,57,093
Sind ..	Ganja.	5	15	22 5	498	267	253	3,35,262	6,31,641	9,13,542
Bengal* ..	Ganja.	5 to 11	20	20	2,794	1,541	1,530	28,12,081	38,32,655	41,68,068
United Provinces.*	Ganja.	5 to 11	20	30 to 35	3,721	3,206	2,343	19,78,670	33,84,359	35,04,572
Do.	Charas.	6 to 8	22·5 to 25	30 to 35						
Punjab ..	Charas.	8	18	40	979	328	285	5,35,251	8,93,694	12,55,504
Burma ..		Prohibited								
Central Provinces.	Ganja.	5	12·5	25	1,233	1,109	1,084	4,48,517	10,24,171	12,70,102
Assam ..	Ganja.	11	16	20	..	234	235	..	8,31,908	7,41,900
Bihar and Orissa.*	Ganja.	9 to 11	12 to 20	30 to 40	..	1,524	1,481	..	26,03,282	40,38,441

* These provinces consume the '*baluchar*' *ganja* of Naugaon, which is stronger than that produced elsewhere.

As regards *bhang*, which is generally regarded as innocuous and excised accordingly at rates which vary from 8 annas to Rs. 3 a seer, except in the Punjab where the rate is Rs. 6, information has reached the Committee that in some instances at any rate the people of the hills on which it is grown are quite cognisant of the effects of removing the male plant. It seems desirable, therefore, that samples should be sent periodically for analysis with a view to ensuring that a variety of *ganja* is not passing into consumption under the guise of the more innocuous drug.

Opium.

221. Opium was formerly grown in Bengal, Bihar and Malwa, and to a small extent in the Punjab Hill States, and was exported from Bombay as well as from Calcutta. Cultivation and manufacture are now restricted in British India to the United Provinces, and the Ghazipur factory also buys a certain amount of opium from Malwa. For

reasons given in the chapter on the Scope of the Problem, the Committee are concerned only with what is sold for consumption in British India This is a monopoly product of the Ghazipur factory except as regards the small quantities from the Punjab Hill States, which are separately excised for consumption in the Punjab The following table compares for continental India for typical years the quantities issued to shops, the rates of duty, and the total realisations —

Province	Consumption (in seers)			Rate of duty per seer			Total realisations		
	1906–07	1919 20	1923 24	1906–07	1919–20	1923 24	1906 07	1919–20	1923 24
				RS	RS	RS	RS	RS	RS
dras	38 356	35,648	35,130	10 3	37	40	9 13,997	22,57 044	24 00,781
mbay	37 227	46 680	26 866	10	10	45	7,8?,912	24,86 209	21,6?,014
d	9,421	6 524	5 858	10	10	30	1 89,970	4 34,306	4,01 561
ngal	84 890	41,953	39,917	8 5 to 26 5	37	41	23,51 682	24 86 209	31 7? 235
ited Provinces	68,865	40,843	24,128	7 5 to 9 5	27	40	8 47 566	17 40,365	17 ?2,660
njab	59,907	44,683	33 377	4 5 to 8 5	19 5	40	7,?9 117	29,10,663	30,41 818
ntral Provinces	55,459	37,014	30,433	15	32	33 to 40	18 87 658	?3,3? 227	24 15,8?9
sam	.	69 924	36 421	20 5 to 28 5	37	45		38 37 125	38 10,161
har and Orissa		29,431	26 165	8 5 to 26 5	32 to 37	35 to 41		15 12 493	18 97 083

222 This is a traffic which is being brought increasingly under control under recommendations adopted by the League of Nations, and though these are put forward on grounds that have no concern with the revenue, it seems desirable to consider whether the time has not come for so modifying the revenue arrangements as to make it easy in the future to fit them in with the further measures of control that are likely to be adopted

The time appears to have come for the closer regulation of the opium traffic

There are five aspects of this question which have attracted the Committee's notice—

(1) In the first place, the cultivation of the poppy, though now restricted in British India mainly to a single province, is carried on there in as many as 29 districts This large dispersal of it, coupled with the enormous temptation to the smuggler which results from the high

The dispersal of cultivation.

rates of duty imposed in India and the still higher rate in Burma, makes it exceedingly difficult to ensure that all the opium is brought into the factory, and it seems to be very desirable to secure a larger concentration of cultivation, even if this results in an increase in expense. A minor question of cultivation arises in connection with the opium that is grown in the Punjab Hill States, where it is mainly grown for the production of poppy heads which are used as an article of diet and medicine, but a certain amount of opium is also produced and issued to the Punjab, which affords a cover for smuggling. It would seem desirable, if it is practicable, to suppress the manufacture of opium in these States, but perhaps to give them in return a limited monopoly of the production of poppy heads.

The stock in hand.

(2) In the next place, the Committee observe that the Ghazipur factory is carrying a stock which is out of all proportion to its present issues and which represents a very large lock-up of capital. It seems desirable on this ground that cultivation should be limited for some years to come.

The possibility of making up the opium into doses.

(3) In the third place, the Committee would like to see experiments made in making the opium at the factory into doses, and this for three reasons. For one thing, there is a waste of labour when, as in some provinces, each shopkeeper is required to cut up all the opium issued to him into portions of a weight equivalent to that of a silver two-anna piece and to wrap each in paper. In the second place it is desirable, when such a very heavy duty is imposed, to ensure that the consumer gets what he pays for, and allegations of adulteration are not uncommon. In the third place, the issue of the opium in cakes lends itself to the practices of the smuggler. The proposal is not a new one and it has been rejected on previous occasions on the ground of the hygroscopic nature of the drug. The Committee understand, however, that recent enquiries have shown that it would be quite possible to make it up into pills with a pill-making machine which would keep their form intact if they were issued in corked and sealed bottles. The only objection to this proposal is the cost. But the cost would be a trifle as compared with the duty, and in view of the fact that makers of medicines find it worth their while to issue in similar packages articles which are worth only a fraction of the duty on the opium, it seems to the Committee that it would be well worth while at least to take up the proposal on a tentative scale.

(4) Meanwhile, as will be seen from the table above, the rates of duty are tending to an equality, and it seems evident that in this case the reason which has operated to preserve in the case of country spirits the practice of varying excises, which obtains nowhere else in the world, no longer operates in the case of opium In other words, the time has come when there should be one rate of excise or *monopoly price* for continental India

The rates of duty

(5) The fifth point that calls for remark relates to the practice of selling opium licenses by auction The auction system undoubtedly has its advantages in connection with ordinary restrictive excises, since it prevents the growth of vested interests and enables the Government to secure, in addition to the direct tax on an excisable article, an indirect tax which varies roughly with the consumption and is based generally on the prospects of the season These considerations, however, are ceasing to apply in the case of opium The consumers of this are generally well known, and in some provinces measures for registering them are already being taken Nor does the consumption of opium fluctuate to the extent that that of liquors does with the prospects of the season On the other hand, the possession of a license gives great facilities for smuggling, not only of the illicit drug, but of the duty paid article, which commands in Burma a price far above what the vendor can sell it for in India For a like reason the vendors are under temptation, where they are rigidly controlled, to let legitimate consumers go without in order to sell what should go to them to the smuggler On the whole, it seems to the Committee doubtful whether it is wise to continue the system of auctioning licenses in the case of opium On the other hand, the steady pressure that is being exerted towards limitation of issues to those for medical use and the extension to Assam of the policy of registering consumers suggests the desirability of introducing something in the nature of official vend If this were conceded, the case would be still stronger for the adoption of the plan of issue in fixed doses, which could be retailed at a fixed monopoly price that would include both the duty and the vend fee

The auction system

223 Should the making up of opium into doses be successful, the Committee would recommend that the possibility of making similar arrangements be examined in the case of *ganja* This would be more difficult on account of the much more primitive way the drug is made

The desirability of a chemical enquiry in the case of *ganja*

up in that case. But it is the more necessary because, while the arrangements for dealing with wastage under present conditions give a ready cover for fraud, the drug as at present made up loses its properties within a space of two years. A certain amount of success has already been achieved in Madras in making the drug up into cakes somewhat resembling cakes of plug tobacco. The matter appears to be worth examination by an expert industrial chemist.

Opium and *ganja* in Burma.

224. The above remarks as regards opium and *ganja* have been confined to continental India. The treatment of both the drugs in Burma is peculiar. *Ganja*, though it presents no attraction to the Burmans, is prohibited both to them and to all other inhabitants. Opium is permitted only to non-Burmans and to Burmans in Lower Burma who were opium consumers before 1893 and were entered as such in the register compiled in that year and reopened during the years 1900—1903. These registered consumers are required to show proof of their registry each time they make a purchase, while an elaborate record is kept in the case of non-Burmans also. Purchases are made in shops at which a Government officer sits side by side with the vendor to watch the transactions. Coupled with these restrictions on the sale is a rate of duty which is out of all proportion to those in the rest of India, being about Rs. 130 a seer. In consequence, the amount of smuggling is enormous. Two officers put on special duty to enquire into the matter in 1910 estimated the quantity smuggled into Burma in a single year to be more than 450 maunds. A recent enquiry into the desirability of allowing a supply of opium to fishermen and others who were very subject to malaria in the Maungmya township of the Amherst district, revealed that they have so little difficulty in securing illicit supplies that over a thousand persons had no hesitation in registering themselves as consumers of opium, although under the law they should not have been able to obtain any. Recent excise reports record seizures of as much as 268,401 tolas. Hardly a week passes without the newspapers recording some sensational discoveries. The interprovincial smugglers operating from Northern India *via* Calcutta to Burma and back are highly organized and the local excise forces are quite unable to cope with them. In parts of Burma, it is as much as the lives of the men are worth to attempt to do so. In the case of *ganja*, the drug appears in places to be almost openly grown. The

seizures in the single year 1921-22 recorded in the excise report amounted to 932,632 tolas, which give for the Hindu population, which alone consumes *ganja*, more than the consumption per head of continental India The Excise Commissioner for Burma, himself a Burman, has summed up the situation in a letter to a newspaper in the following terms "The total prohibition of opium to new Burmans during the past three decades has failed, the total prohibition of *ganja* to Indians has failed, and the total prohibition of liquor other than *tari* to Upper Burmans has failed" The problem involved is not entirely a fiscal one, nor is it one which the Committee have had time fully to investigate, but the fact that the imposition of a prohibitive rate of duty in one case and of actual prohibition in another has resulted in creating this gigantic smuggling organization, with the inevitable accompaniment of disrespect for the law, while allowing consumption to continue on a scale which is equivalent to the consumption in provinces where these measures have not been adopted, seems to indicate the desirability of a special enquiry from the point of view both of temperance and of revenue, and generally of law and order, for which the present arrangements are engendering such a disrespect

In any such enquiry, the Committee would recommend that one of the terms of reference should relate to the system of licensing of sale of opium in Burma Under the present arrangements licenses are given to selected persons and an endeavour is made to work out, first, a retail price with reference to the price of smuggled opium in the neighbourhood, and second, a wholesale price which will give the vendor a profit in the neighbourhood of Rs 1,000 a year With him is associated an excise officer, who is permanently attached to the shop, and who supervises every detail of the vendor's transactions It is agreed that, if a trustworthy official vendor could be substituted for these arrangements, there would result a saving of about half a lakh of rupees a year To persons who have not grown up with it, the whole system has the appearance of an uneasy compromise between an excise for revenue and restriction to medical use, which is not very successful in securing either aim

225 Meanwhile, it appears to the Committee that arrangements are urgently necessary for coping with inter-provincial smuggling An officer was appointed to go into this matter in 1911, and as a result of his enquiries, The need for special measures to deal with inter-provincial smuggling

arrangements were organized for the appointment of provincial officers to deal with the more difficult cases and to operate on the railways. These establishments have since been interchanging information with one another, but it is clear from the evidence that the arrangements are still inadequate. Something more is needed to co-ordinate them, and officers with special qualifications are required to follow up the inter-provincial smuggler from province to province. The Committee would strongly recommend that the matter be enquired into again and a small imperial force employed capable of tracing up cases from the places where the opium is grown in Malwa or in the United Provinces over the railways to the harbours where it is shipped and landed, and to the places where it is ultimately consumed. The same staff should deal with the similar extensive smuggling of *ganja*, which goes on to a large extent from Madras, and that of cocaine, which there is reason to believe comes into continental India from Burma as well as from abroad.

Summary of proposals.

226. To sum up, the Committee would recommend—

In the case of country spirit, that a system of supply through a managed monopoly, such as that of contract supply, should be extended wherever possible, that the rates of duty should be raised in Bihar and Orissa and Assam, that, where it is proposed to depart from the auction system of disposal of licenses, the sliding scale system appears to be satisfactory if supported by a sufficiently large and efficient preventive staff, and that the rationing system to be successful requires an efficient preventive staff, absence of easy facilities for illicit distillation and a certain amount of effective public opinion in its support.

In the case of foreign liquors, that in lieu of vend fees being imposed in the shape of additions to the tariff rate, as is now being done in certain provinces, a definite increase should be made in the tariff itself.

In the case of country-made foreign liquors, that the tariff rate of duty should be levied and that, to avoid further difficulties in this connection, arrangements should be made, as part of the division of the proceeds of taxation, to credit the duty on imported liquor and country-made foreign liquor to the same head.

In the case of country fermented liquors, that the tree-tax system should be extended wherever possible,

but only under rigid and systematic control, and that experiments should be expedited in the direction of bringing the brewing of country beers under control The fact that every increase in the rate of duty on spirits increases the resort to alternative intoxicants makes the control the more urgently necessary

In the case of hemp drugs, that a system of contract supply or managed monopoly should be introduced where it does not exist, that enquiries should be made as to the proportion of the intoxicating principle in the *bhang* consumed and that experiments should be made in making up *ganja* in a more uniform and consistent form

In the case of opium that the cultivation should be restricted, the stock should be reduced, the duty made uniform, the auction system abandoned, and experiments made in making up the drug into pills of a fixed size

Finally that a special enquiry should be instituted into the results of prohibition of *ganja* and partial prohibition of opium in Burma, and a special force employed to deal with the inter provincial smuggler

227 It remains to endeavour to make an estimate of the place the excise revenue will fill in the finances of the future This is a question of which it is difficult to exaggerate the importance, seeing that with the customs duty on imports it represents a total sum of 22 crores of rupees, or 14 per cent of the tax revenue of India, while in one province, Bihar and Orissa, it represents no less than 40 per cent of the tax revenue of the province It is impossible to make any such estimate without touching on the subject of prohibition not for the purpose of discussing the rights and wrongs of that policy, but for that of seeing what will be the cost to the treasury of enforcing it, totally or by degrees And here the Committee would like to emphasise that what that policy involves is not only the extinction of the excise revenue but the effective abolition of drink and drugs both licit and illicit and that in the opinion of one of their members who is himself a convinced advocate of prohibition it is worse than useless to attempt to secure the first objective without taking effectual steps at the same time to secure the second

The loss of revenue that prohibition would involve

The direct loss of excise revenue as has been seen, would be 22 crores of rupees a figure which would unquestionably advance if no change of policy were made As to what it would cost to enforce the law and to deal

The ultimate cost

with those who broke it, it is possible only to make a guess. The Committee understand that the cost of the preventive staff in America, which is likely to be largely increased, amounted in 1923 to over 13½ crores of rupees, while the sentences of imprisonment passed in the same year amounted to 2,781 years, and it is stated that there are cases accumulated that it would take the present courts fifty years to try. It would appear, therefore, that there will have to be added to the cost of the actual preventive staff a large increase in the expenses of the administration of the courts and gaols. India has far greater facilities for manufacture of intoxicants and narcotics than America. Every palm tree is a potential source of alcohol; *ganja* grows wild over large tracts; over other large tracts the people are habituated to the growth of the opium poppy; over others again there is hardly a village in which people cannot be found with a knowledge of the art of distilling with vessels locally available; in yet others the home-brewing of rice beers is an almost universal practice. The Minister responsible in one province has named 2 crores of rupees as the probable annual cost of effective measures of suppression. Another Minister estimates that it would be necessary to treble the existing force. The Excise Commissioner in a third province declares that it would require a standing army. On this basis, anything like real prohibition would involve, in loss of revenue and expense of prevention, a sum that may be put down at probably not less than 18 per cent of the whole of the present tax revenues of the country.

The cost of the measures already taken.

This, however, is a guess at the final cost. In order to get an idea of the cost of the first stage on the way, it may perhaps be useful to examine the effect of the steps that have already been taken in the direction of prohibition, which, especially since the institution of the Reforms and of energetic action in the direction of prohibition by Ministers in the various provinces in response to public demand, has already gone further than is sometimes realised. Reference has been made to the total prohibition of *ganja* in Burma and the partial prohibition of opium in the same province. A similar policy in respect of opium is now being extended to Assam, while *charas* is prohibited in Madras and Bombay. Meanwhile there is, in the case of spirits, a total prohibition of sale to certain races and tribes such as Burmans in Upper Burma, the Todas and Badagas in the Nilgiris and the

Khonds in the Khond Mals; and in certain areas, such as selected taluks in the Madras Presidency, while in other areas the restriction of shops, coupled with the increase of price and the limitation of possession involves practical prohibition to large classes of the population For instance in the Punjab generally there is an area of 186 square miles and a population of 40,153 persons to every country spirit shop, which means that the bulk of the population must go without or resort to illicit supplies Most provinces show similar figures for individual districts, as has already been illustrated

It is very difficult to say what has been the effect of all this action upon the excise revenue, which is notoriously difficult to gauge, because it varies more than any other item of revenue with the state of the season, the condition of trade and the condition of the people generally. In addition to this, the sudden and large enhancements of duty that have recently taken place have had effects which it is difficult clearly to identify The only method that suggests itself of arriving at a result is to prolong the curve of increase, which was fairly continuous up to 1920-21, and see how it compares with the actual results for the years in question. An estimate based on these lines shows that there was a probable loss of revenue of about 4 crores of rupees in 1921-22 when the non co operation agitation was at its height, and that for 1923-24 the revenue was 5 1 crores of rupees short of what might have been expected under the earlier policy These figures are to some extent *confirmed by the declarations in three provinces* of losses already incurred of 39, 50 and 75 lakhs of rupees, respectively Meanwhile, the fact cannot be ignored that the increase in the efficiency of the preventive force has not kept pace with the increased severity of the law they are expected to enforce In the words of an official publication in Madras, throughout the twenty years from 1883 to 1903, the newly organized and well-disciplined department deliberately set itself, at a cost of about 25,000 prosecutions per annum to stamp out excise crime by the strict enforcement of the law, regardless of the feelings of the community, and in 1903 the Government of Madras could declare with confidence that there was comparatively little illicit consumption of arrack * An increase of nearly 200 per cent in cases

* D N Strathie Excise and Temperance in Madras, page 26.

of illicit distillation within the last fifteen years, and chiefly in the last four years, makes it clear that it would be impossible to make any such confident declaration at the present day. Another instance may be cited, namely, that, in the words of the United Provinces Excise Commissioner, "present taxation has overstepped the limits of the consumer's purse, patience and readiness to obey the law; and widespread evasion is the result". In the Punjab, as has been seen, the administration have been reduced to the device of estimating the illicit consumption, while in Burma the price of illicit opium rules the rate at which the licit article is sold. It is obvious that in conditions like these the pursuit of the present policy will require a very large increase in the cost of the preventive force if any real decrease in consumption is to be secured, and that, as a result, a large addition must be made to the 5.4 crores of rupees of revenue that has already to be replaced.

The Committee consider it necessary to emphasise these points of view since it does not appear to be sufficiently realised in some quarters that the consistent pursuit of a policy of real prohibition will involve the exploitation of every alternative source of possible revenue.

CHAPTER IX.—TAXES ON INCOMES

PART I.—GENERAL

228. The introduction of progressive direct taxation through a modern income tax is perhaps the most important change of modern times in the Indian taxation system. Historical

The first income tax was introduced in 1860 under the stress of the financial difficulties consequent on the Mutiny. It was enacted on lines borrowed from England; its legislative provisions were unsuitable to India and the administrative machinery required to work so complicated a tax did not then exist. It remained in force for five years and was succeeded by numerous experiments in direct taxation in the form of income license and certificate taxes down to 1886. Some of these measures extended to non-agricultural incomes only, while the Acts of 1869-73 resembled the original Act of 1860 in subjecting to taxation income derived from agriculture and agricultural rents.

In 1886 an Income-tax Act was passed which remained in force for thirty-two years. This Act applied to incomes of all kinds other than those derived from agriculture. It provided for assessment in watertight compartments and there was no power of calling for a return of total income. The tax was levied at a flat rate of 5 pies in the rupee with a rate of 4 pies for certain classes of income below Rs. 2,000. The financial stress of the War made it essential to make the tax more productive. In 1916 progression was introduced up to Rs. 25,000 and in 1917 the need for further increasing the yield led to the enactment of the first Super-tax Act. This, as in England, was in the nature of an additional income tax which extended graduation beyond the point at which the maximum rate of income tax became payable.

It was soon found that difficulties arose in attempting to assess and collect a progressive income tax under an enactment devised for a tax at a flat rate. In 1918 a new Income-tax Act was passed, the principal change

being the substitution of assessment on income derived from all sources for assessment by watertight compartments. The combined rates had now reached a maximum of 4 annas in the rupee, or 25 per cent.

During the next four years frequent changes were made in the rates, until in 1922 those of the income-tax ranged from 5 pies on an income of Rs. 2,000 to 18 pies on an income of Rs. 40,000, while the super-tax rates were increased and in the case of the largest incomes reached a maximum of 6 annas in the rupee on any excess over $5\frac{1}{2}$ lakhs. The increasing weight of taxation led to a demand for more accurate assessment, and to meet this demand, the law was completely revised in Act XI of 1922.

The existing law.

229. Before the provisions of this Act are discussed, it is advisable to indicate the general conditions under which the problem has been approached. The last decade has been one of constant change. The law has been modernized and its administrative provisions improved and it is very advisable that for the next few years, attention should be concentrated on the task of organizing a really efficient machine for the assessment and collection of the tax. Great progress has been made in this direction during the last few years, but much remains to be done. Not only is the task of accurate assessment one of great difficulty in the special conditions of India, but it is also true all the world over that a tax whose justification lies in its accurate adjustment to personal ability to pay can only be successful if it is actually so adjusted. The Committee regard this improvement of the machinery as of the first importance and they have, therefore, in making their recommendations for changes, refrained from advocating some which, though justifiable in theory, are not of sufficient importance to warrant interference at the present time with the process of consolidating and developing the administrative machinery.

The basis of assessment.

230. The present basis of assessment is the income for the previous year, as compared with the income for the current year, which was the basis under the Act of 1918, and the average of three years, which is the basis in England. The one serious criticism made of the present arrangements is that, while they levy taxes on profits in every year in which a profit is made, they make inadequate provision for the setting off of losses against profits of subsequent years. This is a circumstance for which

provision is made in the English law under the three years average system, and the Royal Commission on the Income-tax, 1920, recommended that a set-off for six years should be allowed if the previous year's profit was adopted as the basis of assessment. It is true that a majority of the Australian Royal Commission advised against such a set-off being allowed, but they did so on grounds with which the Committee are unable to agree. It seems to them that the substantial justice of the claim to be permitted to set off cannot be denied, but they recognise the necessity in Indian conditions for a strict limitation of the concession and for hedging it round with conditions Their proposal is that a loss sustained in any one year should be allowed to be set off against the profits in the next subsequent year only, subject to the condition that any assessee who claims to have made a loss must prove the fact by producing his accounts as soon as possible after the close of the year in which the loss is made.

Incomes of residents arising abroad.

231. Under the existing law the charge of income-tax extends to all income which accrues or arises or is received in British India or is deemed so to accrue or arise or to be received, but it does not extend to income which accrues or arises abroad and is not received or deemed to be received in British India. Moreover, profits and gains of a business accruing or arising without British India are not chargeable even if received or brought into British India, provided they are not so received or brought in within three years of the end of the year in which they accrued or arose. It has been urged that administrative difficulties are experienced in ascertaining whether income has actually been received in British India, and that much fraud occurs, and it has been suggested that the practice of the United Kingdom should be adopted under which persons resident and domiciled there are liable, generally speaking, to tax on income arising or accruing abroad, whether or not it is received in the United Kingdom. On the other hand, in most other parts of the British Empire the practice is to tax only the income arising in the country The Committee, while recognising the difficulties arising out of the present law, doubt if the loss of revenue is really very great. At the same time they see a prospect of considerable administrative difficulties as well as of difficulties connected with double taxation if such a radical

change as is proposed were made. On the whole they consider that it is best to leave things as they are. Dr. Paranjpye dissents from this view and considers that there should be provision for the taxation of outside incomes of persons resident and liable to taxation in India inasmuch as their whole income and not only the portion at present taxed determines their ability to pay.

Incomes of non-residents.

232. In the case of non-residents the attention of the Committee has been drawn to four cases, that of persons drawing in other countries pensions that have been earned in India, that of persons resident out of India who draw interest on the sterling debt of India, that of non-resident firms which have agents or branches in India, and that of the owners of shipping resident in other countries who do business with India. A cognate question is that of refunds to non-resident assessees whose incomes from Indian sources are liable to a rate less than the maximum.

Pensions and leave salaries.

233. In the case of pensions it seems to the Committee appropriate that the claims of domicile should prevail.

It may be appropriate to deal here with the case of leave salaries, which, though not on all fours with that of pensions, has sometimes been treated along with it. This is a case which has given rise to a great volume of orders, which the Committee find it impossible to reconcile with one another. These orders are dictated largely by considerations other than those of taxation, for which reason the majority of the Committee refrain from making any recommendation in the matter. Dr. Paranjpye is of opinion that leave salaries of persons employed in India accrue in this country and therefore should in all cases be liable to income-tax, subject, of course, to the usual provisions regarding double taxation.

Interest on sterling debt.

234. The opinion has been somewhat widely expressed that India has been a sufferer because Indian income-tax is not deducted from the interest on sterling loans which is payable in London. It seems necessary to emphasise that, in a case where one country borrows from another, the question whether income-tax should be payable on the interest paid should be decided by the terms of the loan. Obviously, if the lenders know that the interest will be subject to such a deduction, they will charge a higher rate. In the case of future loans, therefore, it is clearly

desirable that there should be a definite statement in the prospectus as to whether Indian income-tax is going to be charged on the interest on the loan or not.

Agency and branch profits.

235. Under section 42 (1) of the Income-tax Act, 1922, profits and gains accruing to a non-resident directly or indirectly through or from any business connection or property in British India are deemed to be income accruing or arising within British India. A provision of so all-embracing a nature has led to considerable doubt as to the income which should be taxable.

The case of a selling branch.

236. There are two cases which may be distinguished: those of a selling branch and of a buying branch. In both cases the most equitable arrangement is clearly to provide that the taxable profit of the branch shall be neither greater nor less than that which would be charged in the case of a resident. In the former case, where a non-resident maintains a branch in India for the sale of his goods, the object to be attained would best be secured by the adoption of a provision on the lines of rule 12 of the English General Rules, which runs as follows:—

"Where a non-resident person is chargeable to income-tax in the name of any branch manager, agent, factor or receiver in respect of any profits or gains arising from the sale of goods or produce manufactured or produced out of the United Kingdom by the non-resident person, the person in whose name the non-resident person is chargeable may, if he thinks fit, apply to the Commissioners by whom the assessment is made, or in case of an appeal, to the General or Special Commissioners, to have the assessment to income-tax in respect of those profits or gains made or amended on the basis of the profits which might reasonably be expected to have been earned by a merchant or, where the goods are retailed by or on behalf of the manufacturer or producer, by a retailer of the goods sold, who had bought from the manufacturer or producer direct, and on proof to the satisfaction of the Commissioners concerned of the amount of the profits on the basis aforesaid, the assessment shall be made or amended accordingly."

The case of a buying agency.

237. The case of a buying agency must be treated on slightly different lines. The proper method of ascertaining the profit which can justly be taxed in India is to charge not more than the difference between the cost price of the goods bought and the market price f.o.b., less the expenses of getting them f.o.b. The equity of

this view is evident from the consideration that a foreign merchant without an agency or branch in India, who is clearly not taxable, can get his goods at the f.o.b. price and no question of Indian taxation will arise. If, therefore, he establishes a branch or agency in India, the maximum profit which can reasonably be charged is the extra profit he makes by doing so.

The case of an agency that manufactures in addition to buying.

238. The same principle should apply whether the goods have been subjected to some process of manufacture in India after purchase by the branch or agency or whether they are exported in the same state as when they were purchased, but in the former case the actual cost of manufacture will be an additional deduction in arriving at the taxable profits of the non-resident.

It appears, however, from certain High Court judgments to which the attention of the Committee has been drawn, viz., in the cases *in re Rogers Pyatt Shellac Co.* v. *the Secretary of State for India*, heard in the Calcutta High Court, and *the Commissioner of Income-tax* v. *Messrs. Steel Brothers & Co.*, heard in the Rangoon High Court, that the effect of section 42 (1) of the Income-tax Act and particularly of the words "accruing from any business connection or property in British India" is to impose a very much wider charge on the non-resident than the Committee have indicated should be the case, and to tax not only the profit arising from operations conducted in India, but also the profit arising out of the sale of the goods abroad. It seems to be a very strong measure to seek to charge profits which neither arise out of activities carried on in India nor belong to a person resident in India, and the matter is by no means without importance in relation to the arrangement for double income-tax relief which exists between India and the United Kingdom. It is to be borne in mind that under this arrangement the brunt of the relief is borne by the Exchequer of the United Kingdom. The moral claim of the United Kingdom Exchequer to levy duty in respect of profits which arise out of sale operations conducted in the United Kingdom and which accrue to a resident in the United Kingdom is unquestionable, and if through the incident of the establishment of a buying agency or branch within their jurisdiction, the Indian Government take toll of profits neither earned nor belonging to persons residing within their jurisdiction, the question will arise whether the British Exchequer can fairly be called upon to bear the cost of the double income-tax relief.

In the view of the Committee the section under review should be amended so as to limit its operation in the manner that has been indicated

239 Another case of taxation of the income of non-residents arises in connection with shipping concerns This question has special interest at the present time in view of the fact that several countries have entered into reciprocal arrangements under which the profits of a shipping concern resident in one of the contracting countries are exempted by the other contracting country from income tax in respect of profits earned within its jurisdiction The British Finance Act of 1924 contains provisions which practically amount to an invitation to the Colonies and British Possessions to enter into similar arrangements The Committee have considered whether it is desirable that any action should be taken on this invitation If there were any considerable amount of shipping registered in India, it would be desirable to fall in with an arrangement which is for the common advantage, but in present conditions it is clear that such action would involve India in considerable loss with no corresponding gain In these circumstances the Committee are unable to make any recommendation in the matter at present

Profits of shipping concerns

240 It is understood that, when a non resident derives an income from Indian sources which does not reach the amount at which the maximum rate of income tax is chargeable, he is entitled to a refund of tax at a rate equal to the difference between the maximum rate and the rate applicable to his total income from Indian sources This refund is given however large the income of the non resident from other sources may be This was also the case in England up to 1910 The law was changed by the Finance (1909 10) Act, 1910, and the privilege is now restricted to British subjects and certain others, and even in their case the full relief is not given where the claimant has income from other sources not liable to British income tax In the view of the Committee there is a good deal to be said for the enactment of a similar provision in India

Refunds to non residents

241 The question of the exemption limit and that of allowances for dependants are related to each other and it seems desirable to consider these two questions together The exemption limit in most countries bears

The method of assessment—the exemption limit and allowance for dependants

relation to the cost of subsistence. In India it began at as low a figure as Rs. 200, from which it was raised successively to Rs. 500 in 1886, to Rs. 1,000 in 1903 and to Rs. 2,000 in 1919. It is thus actually higher than the exemption limit in the United Kingdom. One of the principal reasons for this last increase was the very large number of assessees falling within the lower range of income and the small sum realised by including them within the scope of the tax in relation to the trouble and expense involved in the assessment and collection of the duty. This is a reason which has gained added force since the transfer of the work of assessment from the ordinary district staff to a special Imperial one.

While several witnesses have urged a reduction of the exemption limit to a lower figure, others have pressed for the introduction on English lines of provision for allowances in respect of wives, children and dependents. In this case again an administrative difficulty arises. In England it is easy to verify the claims made on this account by reference to registers of births, marriages and deaths. In India these registers are not sufficiently reliable or universal to render such an arrangement possible, and while English experience shows that in the absence of safeguards fraud would be likely to be attempted, it would be impossible to prevent it in Indian conditions without enquiries of an inquisitorial nature.

Meanwhile, the circumstances of the two countries differ in view of the fact that marriage is practically universal in India, and the number of bachelors whose incomes, though below Rs. 2,000, are such that in view of their greater taxable ability they might reasonably be called upon to make a direct contribution to the Exchequer is very small.

On the whole, it seems to the Committee that it would be best under Indian conditions to set off the higher exemption limit against the absence of allowances in respect of dependents, in other words, to maintain the *status quo* in both matters.

Dr. Paranjpye would allow an abatement of Rs. 200 for one wife and Rs. 150 for each minor son or unmarried daughter to a maximum of Rs. 950 provided it was claimed. He does not consider that any assessee would make a false declaration without being easily found out. The case for abatement will, in his opinion, be

still stronger if, as is recommended later, the incomes of husband and wife are aggregated for the purpose of determining the rate of tax

242 The differentiation between earned and unearned income is another idea borrowed from European countries, the application of which to Indian conditions appears to the Committee to be premature at present The reasons underlying such a differentiation appear to be, firstly, that earned income is in its nature more precarious than income derived from capital, and secondly, that the whole of an income which is earned is not available for spending if, as is usually the case, provision has to be made for old age or for dependents These considerations apply with much diminished force in India for two reasons, first, that there is no large class of *rentiers* depending on incomes from investments, and secondly, that, in so far as there is such a class, by far the greater part of its investments is in land, and so long as income from land escapes income-tax altogether, it would be invidious to impose a differential rate of tax on the relatively small balance of investment income that remains The case would be different if at any time incomes derived from agriculture were made liable to the tax — Differentiation of earned and unearned income

243 Graduation is a feature of most modern income tax systems, its object being to secure that the higher income pays a larger proportion of its surplus than the smaller one — The system of graduation

The system adopted in England on the recommendation of the Royal Commission on Income tax of 1920 is as follows From the total income of the tax payer for the year there is deducted a sum equal to 10 per cent of any earned income, subject to a maximum of £200 The resulting balance is called the "assessable income". From this certain fixed deductions are made for the tax payer himself and for his wife and children and certain dependents The resulting balance is called the "taxable income" At the commencement of each financial year a certain rate of income tax, known as the standard rate, is imposed by Parliament The first £225 of the "taxable income" is charged at one half the standard rate and the balance at the full standard rate The result is that the effective rate of tax varies according to the size of the income, and in the case of the largest incomes approximates closely to the standard rate, while in the case of incomes just in excess of the amount of the

allowances, the effective rate is very small. In the case of the larger incomes the graduation is steepened by the addition of a super-tax, which is charged at gradually increasing rates on successive slices of income in excess of £2,000.

In India a different system, somewhat similar to that obtaining in England before 1920, is adopted. Incomes are ranged into classes by reference to their amount, and different rates are charged according to the range within which the income falls. The defect of this system is that, in the absence of a provision to meet the case, an income just above each limit at which the rate increases would pay an amount of tax which would exceed the amount of tax paid by an income at or just below the limit by more than the difference between the two incomes, and accordingly the tax-payer with the higher income would be worse off than the tax-payer with the smaller income. This defect is not entirely removed by section 17 of the Income-tax Act, 1922, which provides that where, owing to the fact that the total income of any assessee has reached or exceeded a certain limit, he is liable to pay income-tax or to pay income-tax at higher rate, the amount of income-tax payable by him shall, where necessary, be reduced so as not to exceed the aggregate of the following amounts, namely—

(a) the amount which would have been payable if his total income had been a sum less by one rupee than that limit, and
(b) the amount by which his total income exceeds that sum.

If the rates were being considered for the first time and theoretical perfection was the object in view, it would be well to substitute something on the lines of the English system. On the other hand, it has to be remembered that the tax in its present form is a comparatively new and heavy impost; and that it is essential above everything else to secure a satisfactory system of working and not to make changes in the machinery without very solid grounds.

The rates in force.

244. As regards the sufficiency or otherwise of the rates applied to incomes of various sizes, the following table represents the results of an attempt to compare as accurately as may be the percentage of incomes taken

in taxation in England, India, Austria, France and Japan, the figures taken for the purpose of comparison being those for the year 1924

Income in sterling	Percentage of income taken in income tax and super tax					
	England		India	Austria	France (c)	Japan
	(a)	(b)				
50				1 1		..
100				2 2	5	2 0
135			2 6	2 2	9	3 0
150		1 2	2 6	3 3	1 0	3 0
300		6 8	2 6	4 4	1 8	5 0
500	3 3	12 5	3 1	5 7	4 4	6 5
1,000	10 8	18 8	4 7	10 8	7 5	9 5
2 000	17 0	22 7	7 8	18 9	12 5	13 0
5 000	28 0	30 8	11 5	28 4	20 5	17 0
10 000	38 0	39 0	14 6	37 8	34 0	21 0
50 000	50 0	50 0	32 9	47 1	47 0	25 0
100,000	52 0	52 0	39 9	48 2	48 5	27 0

It will be observed that, in the case of incomes up to £500, the Indian rates are comparable with those in the other countries, and that on the largest incomes they do not fall far short of them, but that in the case of incomes from £1,000 to £10,000 they are decidedly low by comparison The Committee have been favoured by the Central Board of Revenue with a very exhaustive analysis of the effects of certain changes in the scales which have been considered, which results in the conclusion that a more equitable scale than the present one, and one which would introduce certain elements of the English system, would be as follows —

First slice	Up to Rs 2 000	Free
Second slice	Rs 2,000 to Rs 5 000	9 pies in the rupee
Third slice	Rs 5,000 to Rs 10,000	1 anna in the rupee
Fourth slice	The whole amount in excess of Rs 10 000	1 anna 8 pies in the rupee

The introduction of a scale of this kind would, however, complicate the tax and multiply the number of claims to repayment, and on the grounds stated in the previous paragraph, the Committee are unable to recommend that a far-reaching change of this kind should be

(a) Tax for a married man with three children with income all 'earned'
(b) Tax for a bachelor with income all 'investment'
(c) Tax for a bachelor, reckoned at current rates of exchange

undertaken at present. Nor does it seem to them desirable to increase the maximum rates, especially in view of the fact that these are being reduced in England. What does appear to them to be equitable is a moderate increase in the intermediate scales, for instance, by applying the 9 pie rate to incomes from Rs. 10,000 to Rs. 15,000, the 12 pie rate from Rs. 15,000 to Rs. 20,000, the 15 pie rate from Rs. 20,000 to Rs. 25,000, and the 18 pie rate from that point onwards, at the same time making Rs. 30,000 the limit for super-tax with a new rate of 6 pies on the first Rs. 20,000 or part thereof in excess of that sum. In the case of the joint Hindu family the limit of exemption might be reduced to Rs. 60,000, the anna rate being applied to the first Rs. 40,000 of excess.

Provisions for appeal—on questions of fact.

245. Appeals lie on questions of fact to departmental officers, while on questions of law a reference can be made for the opinion of a High Court.

In the former case objection has been taken on the ground that the department responsible for the assessment acts as judge in its own cause, and the possibility of introducing something on the lines of the General and Special Commissioners in England has been many times canvassed. The Committee have examined the question again, and as regards the mufassal, find that the great body of opinion is still against the proposal on the ground that suitable persons for employment as Commissioners are not available, and that the Indian business man is peculiarly sensitive to the disclosure of his affairs and prefers that such disclosures should be limited to officials of the department. It seems possible that there might be scope for the commencement of arrangements on these lines in the Presidency towns, and this proposal was discussed with the representatives of the Chambers of Commerce, but while the representatives of the Bengal Chamber gave a qualified approval to it, the others were distinctly opposed to it. At the same time the Committee find that a concrete proposal regarding a Committee of Referees in a somewhat similar matter was unanimously rejected by the Chambers. In these circumstances, the majority advise that the matter be left in *status quo*. Dr. Paranjpye is of opinion that advisory bodies should be constituted in large centres so that the assessee can ask that their opinion be taken. If that opinion was against

the assessee's contention, then he should have no power of further appeal, but the assessing officer might be allowed to send all the papers for final disposal, if he considered that the opinion of the body is manifestly wrong A return of such cases should be published in the annual report

246 In the matter of points of law, difficulties have arisen from the fact that no appeal lies to the Privy Council against a decision under section 66 of the Income tax Act because such a decision is merely advisory and not in the proper or legal sense of the term a final judgment As a result, differing judgments have been given by different High Courts on important questions, and there is no means available short of legislation of securing a final settlement of the questions in issue The Committee would therefore suggest that whatever steps are necessary to secure an appeal to the Privy Council in such cases should be taken without delay

—on points of law The cases in connection with which conflicting decisions have arisen

247 It may perhaps be appropriate to mention here two instances in connection with which such differences of opinion have arisen The first is that of the assessment of agency and branch profits, which have been dealt with by the High Courts of Madras, Calcutta and Rangoon The judgment of the first Court tended to restrict the powers of Income tax officers under section 42 The tendency of the two latter was more in favour of the point of view taken by the department The Committee have recommended an amendment of the section

– agency and branch profits

248 The other case is that of the miscellaneous incomes of the holders of permanently settled land, such as the income from mining royalties, fisheries, markets and fees of various kinds This has been dealt with by the High Courts of Madras, Calcutta and Patna, the point in issue being whether the taxing provisions of the Income-tax Act override the provisions of the Permanent Settlement Regulations The point of law involved is one upon which the Committee do not wish to express any opinion It appears to them, however, that from the point of view of equity, there can be no question that, if the exemption of incomes derived from agriculture is maintained, then the zamindars should have the full benefit of it, but that, in respect of incomes which do not fall within the terms of the exemption, they should pay the tax

–the miscellaneous incomes of zamindars.

249 There may be mentioned here a proposal that has been made for the imposition of a special tax on

The taxation of mining royalties

income derived from mining royalties on the lines of the Mineral Rights Duty levied in England under the Finance (1909-10) Act, 1910. *Prima facie*, since the mines are chiefly situated in permanently-settled areas, and since they were not reckoned among the assets at the settlement, this income is of the nature of a windfall and pre-eminently suited for special taxation. The Committee find, however, that the matter was considered in 1922 by the Local Government chiefly concerned, that of Bihar and Orissa, and that the proposal was rejected on the grounds that the royalties taken in the case of coal were generally low, amounting to not more than 4 annas a ton, and that the income derived from them is assessed both to income-tax and to special local rates. In these circumstances, there does not seem to be room for a special tax so long as the income-tax is levied. Should, however, the Courts decide that this income is exempt on the ground that the charging sections of the Income-tax Act do not override the Permanent Settlement Regulations, the case for special taxation would be complete.

Provisions for secrecy.

250. The recognition of the importance of complete secrecy in income-tax returns is comparatively recent in India. Until 1918 a provision existed for the publication of notices specifying the tax payable by persons with incomes below Rs. 2,000, and it was not until 1922 that the law provided for complete secrecy. Unless assessees are satisfied that their income-tax returns will be used only for the purpose of assessing them to income-tax, it is impossible to expect them to furnish correct returns, and for this reason the maintenance of secrecy is an important factor in the development of an efficient administration of the income-tax in India.

In two respects, however, a departure from the present practice may be made without infringing the principle on which it is based. The adoption of the practice of publishing in the annual reports a list of persons penalised for income-tax offences, which is in force in Australia, would possibly operate as a deterrent to the commission of such offences, and might be tried.

In certain provinces where a profession tax or similar local tax exists, the present law makes it impossible for the authorities responsible for its collection to utilise the information in the possession of the income-tax department regarding persons assessable to both taxes. In order to obviate the necessity for a double assessment,

the law regarding secrecy might well be amended so as to permit Income-tax officers to draw up lists of such persons and the sums for which they are liable under local taxation Acts and to furnish these to the authorities responsible for collecting the local tax.

The super-tax on companies.

251. The super-tax which is levied on the profits of companies is in fact not a super-tax, but a corporation profits tax. There is no advantage in retaining the present name, which gives a false impression of the nature of the tax, and appears to have led, in the matter of the exemption limit, to the perpetuation of an anomaly.

A corporation profits tax is a common feature in other countries and was in force in England for some years after the War. Its justification lies partly in the fact that companies derive certain advantages and enjoy certain privileges as the result of incorporation, and partly in the fact that that portion of the profits of companies which is not distributed as dividends, but is placed to reserve, escapes assessment to super-tax. The tax has now been abolished in England, partly owing to defects in the Act and to the necessity of relieving the burden on trade, but largely because other means had been devised for dealing with the problem of undistributed dividends. The methods adopted there are not such as could be adopted in this country, where meanwhile the advantages of limited liability and transferability of shares which incorporation gives to a company have more value than they have in one that is more developed The tax is, therefore, a suitable one to impose. The rate of one anna in the rupee is not much in excess of the rate of 5 per cent which was imposed in England and does not stand in need of reduction On the other hand, consideration of the facts that the tax is an impersonal one, that it is apt to be amortised, and that the dividends which it affects are in any case an item of unearned income tends to support the suggestion of Professor Seligman that this is a class of taxation that might well be developed.

If the tax is recognised as a corporation profits tax, it becomes clear that the exemption limit of Rs. 50,000 is illogical. Small companies derive relatively as much advantage as large ones from the privilege of incorporation, and the amount of profit made by a company bears no necessary relation to the wealth or poverty of its shareholders. It is recommended therefore that the present

exemption limit, which seems to have been based on a false analogy, should be abolished.

A further consequence of treating the tax as a corporation profits tax is that, as an impersonal tax, it should be treated as an expense of the business in arriving at the profits which are to be subjected to income-tax.

Finally, a good deal of criticism has been directed against the practice of charging super-tax on those parts of a holding company's profits which represent dividends of subsidiary companies already taxed to super-tax. At present, owing to the existence of the exemption limit of Rs. 50,000, there is the practical difficulty that only an indeterminate portion of the profits of the subsidiary company is taxed, and it would be manifestly unfair to the revenue to exempt in the hands of the parent company the whole of a dividend paid out of profits, only part of which have been taxed. With the removal of the exemption limit this difficulty would disappear. On grounds of equity it is not right that the same profits should be taxed two or three times, and in future they should only be taxed in the hands of the subsidiary company.

Dr. Paranjpye does not agree with this view. Every company benefits by incorporation and as this proposed corporation tax is to be considered as a part of the expenses of business, he considers no case has been made out for this recommendation.

Evasion of income-tax and super-tax.

252. The increase in the rate of the income-tax has led to the growth of certain forms of legal evasion which are facilitated by peculiarities in the law. Of these, four principal cases may be distinguished—

(1) A man who is liable to a high rate of taxation may by taking in dummy partners break up his business into a series of unregistered firms. Each firm will then be treated as a separate entity and the rate of income-tax appropriate to its separate profits will be applied to it, while as regards super-tax, the tax-payer will get the benefit, not of one deduction of Rs. 50,000, but of as many deductions of that amount as there are firms;

(2) a man may execute a partnership deed making his wife and minor children partners and may register the firm. The partnership may be quite illusory and the profits may not be distributed in the manner specified in the partnership deed. Each partner is then entitled to an

adjustment of the rate of tax charged on his share by reference to his total income and each obtains an allowance of Rs 50,000 in computing his liability to super tax,

(3) a private company may be formed, controlled by an individual either alone or in conjunction with his near relatives Super tax at the rate of one anna in the rupee is payable on any profits in excess of Rs 50,000 but the liability of the so called shareholders to personal super tax is avoided by paying no dividends and giving loans at nominal interest to the shareholders, which are not intended to be repaid,

(4) a company may be split up into a series of smaller companies each of which will obtain the deduction of Rs 50,000 in computing its liability to super tax

The advantage which the fourth and to some extent the third of these devices secures will disappear if effect is given to the recommendation that the exemption limit of Rs 50 000 for companies super tax should be abolished The most suitable method of preventing evasion by the formation of private companies and the withholding of dividends is to give the income tax authorities power to treat such companies as if they were registered partnerships, the partners being the members of the company having a controlling interest in it While in such circumstances it would still be possible for an individual to evade a part of the liability by distributing shares among members of his family, it seems unlikely that this device would be resorted to in many cases At present it is not feasible to adopt this method because the opportunities for evasion by bogus firms are equally great But if the proposals for dealing with such firms which follow are adopted the remedy becomes practicable and may be applied The conditions under which it should be made permissible for the Income tax officer to treat a company for the purpose of income tax and super tax as a firm should it is suggested, follow those laid down in the English Finance Act 1922, section 21 They are (1) limitation of the number of shareholders to fifty or less (2) restriction of the right to transfer shares (3) absence of any public invitation to subscribe for shares, and (4) limitation of the control of the company to not more than five persons Since the law already provides for access to the lists of shareholders difficulty would not arise in ascertaining the facts

Prevention of fraud by bogus firms.

253. In order to prevent evasion through the formation of bogus firms, three changes are advisable. In the first place, since a wife is the most convenient form of bogus partner, the fact that the law does not provide that the *income of a wife living with her husband* should be treated as his, obviously affords considerable opportunity for evasion. Apart from this reason it is only just on general grounds that the incomes of married couples living together should be taxed at the rate applicable to the aggregate income, which represents their real ability to pay. It is, therefore, recommended that, for the purpose of charging income-tax and super-tax, the income of a husband and wife living together should be aggregated *for the purpose of computing* the amount of tax to which they are liable: and that the tax on the whole at this rate should be divided between the two in proportion to the amount of their separate incomes.

In the *second place*, the right to be treated as an unregistered partnership should be restricted. It would no doubt be a hardship to compel every small firm to execute a deed and register the partnership, but the Income-tax officer might be given power in particular cases to require the partners in an unregistered firm to furnish particulars of the partnership and to compute the liability of the partners on the same basis as if the partnership had been registered. There seems little danger that such a power would be used to harass the tax-payer unduly inasmuch as in small cases conversion from an unregistered to a registered partnership would have the effect of reducing or even extinguishing the income-tax liability. Take, for instance, a firm composed of three partners with equal shares making a profit of Rs. 5,000 per annum. As an unregistered firm the liability would be Rs. 156-4-0, while, assuming the partners to have no other income, the ultimate liability as a registered partnership would be nil. Indeed so substantial are the advantages accruing from registration that it would seem only right that, when the income-tax machine becomes stronger and more able to cope with its task, these advantages should be pointed out to the tax-payer.

In the third place, measures are necessary to ensure that partnerships are genuine and are not merely fabricated for the purpose of evading taxation. To achieve this end it may be provided that particulars of the registration of any firm shall be recorded by the Income-tax

321. In the somewhat similar case of explosives, a suggestion has been made that the example of certain continental countries should be followed and a Government monopoly introduced. The purpose of the suggestion is apparently the securing of control as much as revenue, and has this to recommend it, that there is no large trade to be interfered with, and that the bulk of the manufacture and distribution of explosives is already in Government hands. These, however, are not considerations with which the Committee are concerned. From the revenue point of view, there would appear to be little to be said for the proposal. The imports of blasting explosives in 1924-25 were valued at only about 25 lakhs of rupees, and they already pay a duty of 15 per cent. The imports of gunpowder and smokeless powder do not appear to have exceeded 2 lakhs of rupees and they pay a duty of 30 per cent. The profit to be derived from a monopoly of local manufacture of fireworks, etc., would be comparatively small. In these circumstances, it is not possible to support the proposal on revenue grounds. And under the Explosives Act.

322. The licensing of firearms is accompanied by fees which are based chiefly on the principle that, the more dangerous a weapon is to the public safety, the higher should be the fee paid. In view of the purpose of the Act, this principle is reasonable. But in other countries, as for example in England, the use of arms for sporting purposes is made an occasion for obtaining a small revenue, and suggestions to the same effect have been made at various times in India. It seems that, if a scale can be devised which can be harmonised with the principle on which the present fees are based, the licensing of firearms might well be made to yield more revenue. Instances which occur as suitable for increased charges are weapons licensed for purposes of sport and display, and cases where numerous weapons are in the possession of the same person. The licensing of firearms.

323. The registration of births and deaths returns nothing in the shape of fees, even for extracts from the registers, and involves the Government and the local bodies in a very heavy charge. In the case of marriages, registration is compulsory for certain communities, chiefly the Christians and the Parsis. In the case of Muhammadans, in which community it is almost the universal practice for the Qazi to register the name of the contracting parties and of the witnesses, whose presence is required by the Sheriat, there is a system of Registration of marriages.

voluntary registration in several provinces. In the case of the Hindu community generally, a Bill has recently been passed into law by the Bombay Legislative Council enabling the major municipalities to enforce registration. A private member's Bill proposing to extend similiar powers to local boards has been introduced with the consent of the majority of the Council. The passing of similar legislation elsewhere, coupled with the levy of a fee, has been strongly advocated by a number of witnesses before the Committee. The Committee are concerned only with the fiscal aspect of the question. From this point of view, the introduction of such a proposal might have the result of assisting to some extent the resources of the local bodies, which are badly in need of funds. On the other hand, they cannot ignore the danger that the introduction of a scheme of registration among the Hindu community generally, and especially among the ignorant classes, such as mill hands, might have serious consequences, while at the same time they think it desirable to emphasise that, in any legislation of the kind, it should be made quite clear that the purpose of the registration is to afford superior probative value of the fact of marriage and not to interfere with the customs of the people in respect of the question of validity of any particular ceremony. On the whole, they are disposed to consider that the time has come when a cautious experiment might be made in local areas which are selected by Local Governments as suitable for the purpose, or in which a genuine desire for such a scheme has been expressed by the people of any local area or by the members of any particular class or caste.

The proposed taxation of dowries.

324. It may be appropriate here to touch upon a cognate proposal which has been pressed in several quarters, namely, the taxation of dowries. While recognising the economic harm that results from wasteful expenditure on marriages, the Committee are unable to recommend the imposition of anything in the shape of a sumptuary tax, which moreover is advocated on grounds of social policy rather than of revenue. Even when looked at from the former point of view, it seems to them that such a tax would be very unpopular and difficult to assess, while they doubt if its imposition would achieve the result desired, a reduction of expenditure. On the other hand, it would be likely to increase the expenses incurred by the parties upon whom the present heavy expenditure falls.

325 Fees are charged for the registration of companies on a graduated scale with reference to the nominal share capital The scale extends from Rs 40 for a company with a capital of Rs 20,000 to a maximum of Rs 1,000 when the capital exceeds Rs 75 lakhs The reason for levying these fees is that, for the protection of the public, it is necessary to regulate the operations of companies, and that for this purpose registration is necessary The fees are higher than those levied in England, but in that country there is also an *ad valorem* stamp duty on the capital The Committee have recommended in the chapter on Taxes on Transactions that in India also an *ad valorem* tax on share capital should be imposed, the rate suggested being 8 annas per Rs 100 of the nominal capital If this recommendation is adopted, they would recommend that the registration fees be reduced to the following scale — Registration of companies

	Rs
Companies with a nominal capital not exceeding Rs 20,000	25
Companies with a nominal capital exceeding Rs 20 000, but not exceeding Rs 50 000	50
Companies with a nominal capital exceeding Rs 50,000, but not exceeding Rs 1 00,000	75
Companies with a nominal capital in excess of Rs 1,00,000	100

FEES FOR REGISTRATION OF DOCUMENTS

326 A more important class of fees than any of those so far considered from the point of view of the revenue consists of those levied for the registration of documents under the Indian Registration Act In 1923 these fees yielded a gross total of Rs 120 lakhs The service which is rendered in return for this payment consists in the maintenance of a correct public record of all documents of certain classes, of which the registration is compulsory, and the granting to other documents, of which the registration is optional, of a superior probative value In deciding what portion of the receipts is to be classed as taxation, it is necessary to exclude those paid for the optional registration of documents and for certain special services given by Registration officers to those who are willing to pay for them Registration of documents.

327 On the other hand the fees paid for the registration of documents of which the registration is compulsory possess an element of taxation Since it belongs to the Fees for compulsory registration—the element of taxation

class of payment for services rendered, such taxation may be justifiable so long as it does not exceed the probable value of the service to the recipient. In all provinces the receipts from registration generally show a considerable surplus, ranging from 29 to 70 per cent, over the cost of the department. *The fees paid in respect of compulsory registration bore in 1923 the following relation to the value of the property affected:—*

	PER CENT.
Bombay and Burma	0·2
Madras, Bengal and United Provinces ..	0·4
Punjab	0·5
Central Provinces	0·6
Assam	0·7
Bihar and Orissa	0·8

In view of the security which registration gives in the buying and selling of landed property and the consequent increase in the price which purchasers are willing to pay, it seems justifiable to hold that the rates do not exceed the value of the benefit which registration confers.

The scales adopted.

328. *The fees levied on documents conveying interests* which are capable of valuation are charged on a regressive scale graduated with reference to the value of the interest. The rates, which are fixed by executive order by the Local Governments, vary in the different provinces. To take a rough average so as to illustrate the nature of the graduation, a document of the value of Rs. 100 usually pays a fee of 1 per cent, but where the value reaches Rs. 10,000 the usual fee is .2 per cent. The scale thus depends on two factors—the cost of performing the service, which depends more on the length and intricacy of the document than on its value, and the value of the protection afforded to the property by registration. The basis on which the fees have been fixed seems to be reasonable.

The scale adopted in the Punjab is markedly higher than those of other provinces. On a document conveying an interest valued at Rs. 50, the charge is as much as 4 per cent. Such documents would not usually be compulsorily registrable, but the rate where the amount involved is Rs. 100 is 2 per cent and where it falls between Rs 200 and Rs. 1,000, 1 per cent. It would be advisable to revise the scale so as to make it press less heavily on transactions of small value.

329 The fees for registration of documents have been increased in several provinces since the Reforms, and it is sometimes thought that these increases represent an increase in the element of taxation An examination of the figures, however, shows that this is not the case In 1919 the surplus of receipts over expenditure amounted to nearly 57 lakhs, or 55 per cent of the whole In 1925, in spite of the increase in charges, it amounted only to 55 lakhs, which was only 45 per cent of the gross receipts At the same time, the evidence recorded by the Committee reveals a remarkable consensus of opinion that, if further taxation is required, it is permissible to increase registration fees up to the point where they correspond to the probable value of the benefit Needless to say, in practice it is impossible to determine accurately the point at which the fee equals the value of the benefit The security given by registration cannot be isolated from the effects of other factors, and probably varies in different provinces For instance, in a province with an efficient record of rights the advantage of registration is probably less than in one in which registered documents are chiefly relied upon In practice, therefore, it is advisable to exercise considerable caution in raising the fees, especially in the case of documents that are compulsorily registrable

The increase since the Reforms—a further increase admissible

330 Another possibility of increased revenue which may be mentioned lies in the extension of the classes of document liable to compulsory registration The compulsory registration of documents relating to immovable property when the value of the right, title or interest dealt with is less than Rs 100 has frequently been advocated in the past In fact it was unanimously recommended by a Committee which enquired into the subject in 1879, and their recommendations were endorsed by all the Local Governments Changes of this nature must, however, be decided on grounds other than fiscal

The possibility of extending the category of documents *compulsorily* registrable

331 It is customary to levy fees for mutation of names in the record of rights or in the revenue registers Great value is attached to such entries as evidence of title, and it is legitimate to levy fees for making them There is, however, great diversity of practice between the different provinces In some no fees are taken if application is made on the spot, while in others the fee is taken in the shape of a court-fee on an application to a revenue officer. The rules for levy and the charges in relation to them

Fees for mutation of names in the revenue registers

could with advantage be made more uniform. The charges should, however, be moderate and the suggestion that an *ad valorem* fee should be charged is unsuitable. A record of rights cannot be kept up properly unless the parties come forward voluntarily and report the changes which should be made. An *ad valorem* fee would discourage applications and would react seriously on the accuracy of the record. Moreover, many of the transactions which are the occasion of mutations are already liable to stamp duties.

Court-Fees.

Court-fees—the question whether any charge is legitimate.

332. The case of fees for the use of the services afforded by courts of law is one on which the most diverse opinions have been pronounced. At the one extreme are the followers of Bentham and Mill who declare that the services of the courts should be entirely free; at the other are those who consider that indulgence in litigation is a sign of taxable capacity and that there is much vexatious litigation which ought to be penalised by heavy taxation; between these two extremes are some who consider that the litigant on whose account a special service is maintained should pay a sum sufficient to meet the cost of its maintenance and no more; and others who divide litigation into two classes, of which one class should just pay its way and the other may fairly be taxed. The views of Bentham and Mill, which have largely moulded such public opinion as exists against judicial fees, are to a large extent based on the idea that law-suits arise more often from the imperfections or 'incognoscibility' of the law and from intentional wrong done by one party to another than from the mistakes committed by the parties themselves. As pointed out by Sir Henry Maine in the course of the discussions in the Legislative Council in 1869 on the Court-fees Bill, "a vast amount of litigation in this country arises from complications of fact produced by the neglects of the litigants themselves or their predecessors in title, by unbusiness-like habits, by heedlessness, or by sheer folly".* Further, there are numerous other cases in which it would be clearly unfair to make the general tax-payer pay for services arising out of the affairs of particular individuals such as the administration of a bankrupt's property, the winding up of the tangled affairs of

* Proceedings of the Council of the Governor-General, 10th September 1869, page 292.

a dissolving company, the collection of debts due from defaulting debtors, or the interpretation of a carelessly drafted will In practice, as Adam Smith pointed out, justice "never was in reality administered gratis in any country" * In the opinion of the Committee, while the State cannot be unmindful of the broader interests for which it exists, it is clear that what Sir Henry Maine described as "the extreme theory that the litigant should contribute nothing towards the expenses of litigation"† has nothing to support it

Where one party is the aggressor it is right that he should be made to pay the cost of the proceedings

333 Granting that a fee is to be charged, it is clear that, in the simple case in which property is invaded and it is possible to determine that one party or the other is the aggressor, the charges incurred by the State in adjudicating and deciding the invasion should be imposed upon him Where an action is brought in a criminal court, the charges payable by the complainant are negligible Where civil action is taken, since it is not possible at the outset of the proceedings to decide who is the aggressor, it is inevitable that the fee, if levied at the outset, be taken from the party who institutes the proceedings but he should be given facilities to recover through the court by way of costs at the close

The question whether the fees should do more than cover the cost of the Courts

334 The further question whether the court fees should be so fixed as just to recover the cost of the courts, or whether it is proper for the State to make a profit out of the service it renders, is a very vexed one On the one hand, the cost of the courts is only a part of the much wider service by which the State upholds the law and secures the rights of property, and it may fairly be urged that a litigant who has infringed the law should make a special contribution to the cost of this service Moreover, it is as much the State's duty to save the innocent from unnecessary vexation and expenditure in courts of law as to protect rights and redress wrongs, and if court fees are pitched too low, there will be a strong tendency to bring suits in cases where no real right is invaded and where the real object is to harass an opponent It is, in the opinion of many, a social necessity to check the excessive tendency to litigation, which has proved the ruin of many persons in this country The extent of this is notorious, but one instance may perhaps be pertinent In a recent speech

* Wealth of Nations, Volume II pages 300 301

† Proceedings of the Council of the Governor General, 10th September 1869, page 291,

His Excellency the Governor of the United Provinces referred to the fact that there was hardly an estate in Oudh the holder of which had not at some time been compelled to defend his title in protracted litigation. Accordingly, the earliest regulations, beginning with the Bengal Regulation 38 of 1795, which originally imposed court-fees, did so partly at least with the object of repressing "groundless and litigious suits and complaints".

On the other hand, the higher the fee the greater its effect in rendering access to the courts difficult in cases where real wrong has been done, and this difficulty will be felt more especially by the poorer litigants.

Having regard to all these considerations, the Committee are of opinion that, while the pitching of the scale of fees so as to produce a revenue just sufficient to cover all the costs of the administration of civil justice is an ideal to be aimed at, financial considerations may justify the State charging something more, provided that the fees charged are not such as to cause substantial hardship to any class and particularly to the poorer litigants.

In Dr. Paranjpye's opinion, while even civil justice should be practically free and speedy to the innocent and law-abiding citizen, who should be assured by the State the full enjoyment of his property according to the law without interference or vexation from others, court-fees may involve an element of penalty on the party who comes in the way of this full enjoyment, in addition to their being a charge for the cost of the courts. If it could be practically done, he would welcome the levy of the greater part of the court-fees at the end of a suit, the court fixing this element of penalty on a general consideration of the conduct of the parties in the suit, in addition to ordering the payment of the costs of the aggrieved party. This does not, of course, apply to purely commercial suits. While this may be a counsel of perfection, he is inclined to consider heavy court-fees charged at the commencement of a suit as a practical negation of justice in many cases.

The necessity for accurate information.

335. Meanwhile, having regard to the controversies that have developed on the subject, it seems to the Committee eminently desirable that a record should be maintained from which it should be possible to determine in

every province what is the amount of fees actually levied in the course of litigation, what is the actual cost of the courts and how the one compares with the other. This is a question which has been several times discussed without any satisfactory conclusion having been arrived at. In 1886, an elaborate enquiry was instituted, which was not completed till January 1890, when the Government of India issued a resolution in which they pointed out that the calculations were extremely intricate, and that, notwithstanding the labour that had been bestowed on them, the result could only be considered to be approximately correct, there being clearly in some cases an underestimation of the charges. The result, for what it was worth, went to show that in Bengal there was a surplus which amounted to $14\frac{3}{4}$ lakhs; in Madras the receipts and charges were practically equal; and in all other provinces the charges were much in excess of the receipts. In 1914, the question of repeating the enquiry was raised by a question in the Imperial Legislative Council, and the Government of India replied that the calculations were troublesome and complicated and that it was not worth while to embark on it. In 1924 the Civil Justice Committee, after examining the figures given in the reports of the administration of civil justice, condemned the figures given as 'meaningless or erroneous'*, and decided that no conclusions could be based on them. They recommended that the question should be examined by competent financial authority and that certain principles should be laid down for the allocation of disputable items between 'Civil' and 'Criminal' justice. The present Committee have repeated their endeavour to derive information from the figures at present available and have only been able to repeat the conclusions of the enquiry of 1886 that there appears to be evidence that in certain provinces the fees exceed the expenditure, while in others the reverse is the case. To ensure that for the future a common and easily intelligible basis for such a calculation should be available, they recommend that, in the future reports of the administration of civil justice, there should be introduced a classification of receipts from court-fees and charges on account of courts on the following lines:—

(a) The principle should be laid down that the copyist and process services should pay for

* Report of the Civil Justice Committee, page 432.

themselves and no more, and receipts connected with these services should not be included in the general account of the cost of civil justice. This would involve in Bengal the replacement of a profit on the process service which in 1923 amounted to 14 lakhs of rupees.

(b) The fees levied under the Court-fees Act which consist of pure taxation unconnected with any suit, such as duties on probates, should not be credited as receipts of courts. Nor should miscellaneous items of receipts, such as lapsed deposits, be included. They should come under a different head. An allowance should of course be made for court-fees refunded.

(c) On the charge side, there should be included (i) pay and pensions of officers and establishment (exclusive of the copyist and process service establishments), less allowance for time spent on criminal or revenue work, (ii) contingencies, (iii) stationery and printing charges, (iv) a share of the discount paid to stamp vendors and other expenditure incurred in realising the stamp revenue, (v) a share of the overhead charges in the Secretariat, and (vi) the charges for rented buildings and the interest on the capital cost and cost of maintenance in the case of those that are the property of Government.

Methods of fixing court-fees.

336. In fixing scales of court-fees, different plans have been observed in different cases. The primary principle is to grade them according to the cost of the service rendered, and an attempt is made in the High Court in England, and, subject in one case to a partial exception, in the three Chartered High Courts in India, to approximate to this principle by charging a small initial fee and an additional fee at each successive stage of the case. Even this estimate, however, does not by any means accurately measure the cost of the service in individual cases, and any attempt to do so would probably fail. Accordingly, and in view of the fact that to some extent the time spent by courts depends on the value of the subject-matter in litigation, partial effect has been given to this consideration in framing the scale of fees in the county

courts in England In the case of courts in India other than the Chartered High Courts, this process is carried still further In introducing the Court-fees Bill of 1869 Mr Cockerell stated that the amount of the fees "is fixed, not in proportion to the measure of labour imposed upon the court in the adjudication of the suit, but according to the value of the matter litigated, i e , in proportion to the advantage which the suitor obtains or seeks to obtain through the court's action "* This appears to the Committee to be an incorrect statement of fact and to enunciate a principle which cannot be defended The advantage which the suitor obtains through the court's action can only be measured, if at all, when the suit is decided, but if the advantage which he seeks to obtain is to be measured in terms of the value of the subject-matter litigated, the scale should of course be proportional, not regressive The system of basing the fee on the value of the subject-matter litigated is not in itself a principle, but merely a method, rough and imperfect though it be, of giving effect to the cost of service principle

Modifications suggested in the Indian system

337 In the conditions in India the system now obtaining under which the fees are fixed on a graduated and regressive scale by reference to the value of the subject matter litigated is, subject to the recommendation which the Committee make below, a suitable one and to be preferred to any attempt to measure the cost of the service in individual cases

The possibility of modifying this system in the direction of securing a closer adherence to that of basing the fee on the cost of the service rendered is indicated by proposals that have been made that a refund should be granted, or a lower fee charged, (1) in the case of suits decided *ex parte*, and (2) in the case of those settled by agreement or compromise

The proposal regarding refunds is no new one A provision which allowed for refund on a decision or disposal based on an agreement or compromise was in force under the Code of Civil Procedure of 1859, and again under the Stamp Act of 1862, and even now, under the Presidency Small Cause Courts Act and the Madras City Civil Court Act, half the fee is repayable if the suit is

* Proceedings of the Council of the Governor-General, dated 10th September 1869 page 288

settled by agreement before the hearing. These provisions, however, are not entirely satisfactory. An *ex parte* disposal is not necessarily a speedy one, and an *ex parte* decree may mean that the party who brought the suit has been using the court as a debt-collecting agency. Similarly, suits settled by compromise out of court sometimes involve numerous enquiries and expensive proceedings connected with interlocutory applications for arrest or attachment before judgment and the like. At the same time, the benefit conferred upon the litigant by a system of refunds is problematical, since, apart from the considerable time taken and the expense of obtaining the refund, it is more than doubtful whether the whole of the money refunded will ever reach the pocket of the party who has paid the fee.

The Committee's proposals.

338. The other system which, while it is free from the latter objection, is still subject to the former, is that in force in the county courts in England, under which the fee is paid in two instalments, one at the institution of the plaint and the other at the trial or hearing, and in cases where judgment is entered up by consent or in the absence of the defendant, the hearing fee is only one-half of the hearing fee which is payable in other cases. The Committee are disposed, on full consideration of the matter, to recommend that effect should be given to the principle of measuring court-fees by the cost of the service rendered to the extent of taking the fee in two instalments, the first being payable at the institution of the suit, and the second on or immediately after the settlement of issues.

The need for thorough revision of the Act and schedules.

339. The Committee have so far dealt with the broad general principles involved, and before going into matters of detail, they think it desirable to point out that the experience of 55 years has shown that the Act of 1870 needs revision in many respects—a fact which is sufficiently demonstrated by the accumulation of rulings of the High Courts and by the amending Bill, which is now before the Legislative Assembly. Meanwhile, however, the situation has been complicated by the transfer of the power to fix the rates of court-fees to Local Governments. The amending Bill proceeds on the basis that the principles of assessment and the procedure in realising court-fees are exclusively regulated by the sections of the Act, and that the articles in the schedules merely contain details which can be left to be dealt with

by the provincial legislatures It seems to the Committee that, in the circumstances of the case in question, such an arbitrary division of functions cannot be satisfactory, and they would recommend that an expert Committee should be appointed to examine the provisions of the Act and the provisions of the schedules, both separately and in their relation to one another, and they propose now to justify this suggestion by an examination of instances of defects in the Act and the schedules and the inter-relation between them

The provisions regarding valuation of suits.

340 One principal defect in the Act is in respect of the valuation of suits Under paragraph (iv) of section 7, plaintiffs are authorised to value suits of various classes according to their discretion, and this discretion has been widely abused The situation has been made worse by the fact, not only that the court seems to be powerless to compel a plaintiff to revise an unreasonably low valuation and pay the proper court-fee, but that, while the court fee is calculated under rules fixed by law, the right of appeal to the Privy Council and sometimes the forum of institution depend upon the real value of the subject in litigation The result is sometimes a *reductio ad absurdum* Similarly article 17 of schedule II provides a court-fee of Rs 10 for a variety of suits, some of which, e g , suits for a declaration of title to property, are clearly capable of valuation *

Again, in respect of suits for the possession of immovable property, the Act lays down different criteria for different kinds of property A permanently settled estate, or a definite share of it separately assessed and entered in the Collector's register, is to be valued at ten times the annual revenue, a temporarily-settled estate, or a definite share of it separately recorded as paying revenue to the Government, at five times the annual revenue; a revenue-free property at fifteen times the net profits of the preceding year, and where no such net profits have arisen, with reference to the value of similar land in the neighbourhood, part of a revenue-paying estate not separately assessed, at the market value of the land, houses and gardens also at the market value These arbitrary provisions again result in the *reductio ad absurdum* that a suit for a part of a field may pay a higher court fee and require to be tried by a

* In this and subsequent passages where a rate from the schedule is quoted, it is the rate embodied in the Act of 1870 unless the context shows that one of the rates imposed by provincial legislation is in question

court of higher jurisdiction than a suit for the whole. In addition, the varying ratios of value of land to assessment make the fees arbitrary and uneven, while suits for land, though they are generally more hotly contested than suits for money or movables, pay lower court-fees than the latter do. Moreover, the method is inconsistent with the method adopted for the valuation of land in the case of appeals to the Privy Council.

The preparation of a schedule of valuations recommended.

341. While the Bill before the Assembly proposes some amendments in respect of section 7, it seems to the Committee that something more drastic is required, and what they would recommend is a thorough recasting of the section and the preparation of a full schedule similar to that contained in the Indian Limitation Act, 1908, of suits and appeals which commonly arise in civil courts with a method of valuation prescribed for each. There would of course remain a residue of suits incapable of valuation, for which fixed fees should be provided, but these fees should, in the opinion of the Committee, vary with the nature of the suits or of the forum set in motion by the plaintiff, and they would particularly recommend consideration of the statement made in the local Legislative Council by the Hon'ble the Law Member, Madras, that there exists a class of suits which he described as 'luxury' suits, which ought to be made liable to a high scale of fees.*

Recovery of deficient fees in decided suits.

342. Another respect in which the Act appears to need amendment is as regards the provisions which enable the courts to collect a deficiency in the fees paid—*vide* sections 10 to 12 and 28. These sections apply to pending and not to decided cases. The Committee would recommend that provision be made for the recovery by the Government within a reasonable period after the disposal of a suit of any deficiency in the court-fee through means of an application to be made to the court for a decree for the amount due against the party by whom the same is payable.

Instances of inadequate fees in the schedules.

343. To return to the schedules, the following are some of the instances of inadequate fees that have been brought to the Committee's notice :—

(1) In the case of Civil Revision Petitions [schedule II, item 1 (d)], detailed calculations of receipts and charges made in respect of the proceedings in the High

* Proceedings of the Madras Legislative Council, dated 18th March 1925, page 230.

Court of Madras for 1923-24 disclosed the fact that there was a deficit on the year's working of about Rs. 30,000 and a net loss on each petition of Rs. 30.

(2) Applications for orders of arrest or attachment before judgment or for temporary injunctions are often put in by parties for the purpose of obtaining indirect advantages over their opponents, and the orders passed on them are appealable. The fee is only 8 annas, as against 5 shillings in England, which, considering the level of court-fees there, is comparatively high.

(3) A similar case is that of an application for the appointment of a receiver in a case in which the applicant has no present right of possession of the properties in dispute.

(4) An application for compensation for arrest or attachment before judgment or in respect of a temporary injunction obtained on insufficient grounds is also charged only a fixed fee of 8 annas. As such applications operate to bar suits for damages, and the orders on them are appealable, they may well pay *ad valorem* fees.

(5) Applications to set aside decrees passed *ex parte* and applications for review of orders dismissing suits for default pay the same low fee, which may well be increased.

On the other hand, applications for review of judgments pay a fee based on the amount in issue in the suit and should be assessed only on the amount or value of the relief sought for.

(6) Applications under paragraph 17 or 20 of the second schedule of the Code of Civil Procedure for permission to file agreements to refer to arbitration or awards, and agreements filed under Rule (1) of Order 36 of the Code are rated in the schedule to the Imperial Act at Rs. 10. In Madras the fees in these cases have been raised to Rs. 15 and Rs. 100 according to the court to which the application is presented.

(7) Applications under sections 34, 72, 73, or 74 of the Indian Trusts Act for opinion or advice or for discharge from a trust or for appointment of new trustees take up considerable time of the courts, and on the principle of payment for the service rendered, should pay a higher fee than that of 8 annas which they now pay.

(8) A similar remark applies to an application for the winding up of a company under section 166 of the Indian Companies Act.

(9) Another similar case is that of an application under section 26 of the Provincial Insolvency Act.

Election petitions.

344. A somewhat different class of cases consists of petitions contesting elections to the local and central legislatures and the various local bodies. In the former case these petitions are tried by a tribunal of three judges, who are either judges of the High Court or qualified to hold such office. They therefore cost an appreciable sum to the State and contribute nothing towards it. The cost in the case of petitions contesting elections to local bodies is less, but still considerable. While it is no doubt a primary concern of the State to ensure the purity of elections and the return of suitable candidates to the legislatures and the local bodies, it has to be remembered that there are provisions for the intervention of the State in cases of obvious malfeasance. At the same time, it cannot be denied that very often election petitions are the result of personal or communal rivalry and actuated by malice or spite. When these petitions come to court they are often fought out with great animus, and, as has been observed, the trying of them costs appreciable sums. It may not be possible to make them pay for themselves, but it seems proper to levy an amount which bears some relation to the cost of the service rendered.

Cases where fees are excessive.

345. The Committee, while inviting attention to several cases in which the fees at present levied appear to be inadequate, have made fewer recommendations regarding the cases in which they are excessive. The reasons are three: In the first place, until an accurate account of the receipts and expenditure is obtained on the lines recommended above, there is no certainty that the fees, even where they have been raised for the purpose of balancing the budget, do actually more than cover the cost of the courts. In the second place, the recommendation made regarding the payment of institution fees in suits in instalments will result, if accepted, in a large reduction of the receipts. In the third place, the Committee have recommended the scrutiny of the whole of the schedule by experts. The cases to which they have called attention are some of the more glaring anomalies. But the Committee expect that an exhaustive scrutiny by lawyers will reveal numerous other cases in which a revision in the direction either of increase or reduction is desirable.

The desirability of uniformity.

346. Meanwhile, the Committee have not entered into any examination in detail of the variations in rates between

provinces that have resulted from recent provincial legislation But they would venture to urge that the matter of court fees is one in respect of which uniformity is desirable, not only in the matter of the general principles, procedure and methods of realisation, but also unless there is strong reason to the contrary, in the matter of rates Not only does a large difference in rates engender a feeling of injustice in the persons affected, it might also tend to the transfer of litigation from province to province

347 While uniformity is desirable generally, there is one case in which the lack of it is a subject for remark, and that is the case of the three Chartered High Courts While the Court fees Act applies to all other courts in India as well as to the Appellate Sides of the three Chartered High Courts, in respect of suits on the Original Side these three courts constitute, as it were, *imperia in imperio*, exercising taxing powers irrespective of the legislature Not only do the fees levied by them differ from those levied in mufassal courts and in other High Courts, but those levied in one Chartered High Court differ from those levied in another In respect of original suits, while the Calcutta High Court levies a fixed institution fee of Rs 15, the Bombay High Court levies one of Rs 20 and the Madras High Court an *ad valorem* fee of Rs 150 for the first Rs 10,000 of value and Rs 20 for every Rs 5,000 thereafter In addition to these institution fees, there are levied other fees such as hearing fees, exhibit fees, etc , so that the sum eventually paid as court-fees is considerably in excess of the institution fee Nevertheless, an actual comparison of the court fees paid on the Original Side of two High Courts in a few typical cases shows that the total sum paid is considerably less than the amount levied under the Court fees Act in the mufassal courts, except in the case of certain suits, already referred to, in which the plaintiff is allowed to pay court fees on the valuation put by him at his discretion or a fixed fee of Rs 10 If the agency which is set in operation is to be the criterion of the amount of the fee to be paid, it follows that that of a High Court being much more efficient and expensive than any court in the mufassal, a litigant on the Original Side should pay a higher and not a lower court-fee The Committee recognise that this ancient privilege of the successors of the old Supreme Courts is one which the Government will be loth to disturb Regarding the matter, however,

The case of the Chartered High Courts

from the point of view of taxation, they feel that the retention of it cannot be justified. They would urge that whatever steps are necessary be taken to render the fees on the Original Sides of the Chartered High Courts as far as possible uniform with one another and not less than those in the courts in the mufassal.

Miscellaneous fees included in the schedules.

348. In addition to the fees payable in courts, the schedules of the Court-fees Act deal with various miscellaneous fees payable to Revenue and other officers. The original provisions regarding these fees were widely worded, and at one time they produced quite a considerable revenue because there was hardly any application to a Revenue officer which did not require a fee of some sort. Of late years, however, they have been qualified by so many exceptions and exemptions that it is probable that the revenue derived from them is very small. In the opinion of the Committee a distinction should be made between applications that involve enquiries of a judicial character and applications for relief from or recovery of taxation or applications which are incidental to ordinary official routine, and they would recommend that an examination should be made of the applications to Revenue and other officers that are at present liable to stamp duty and of the revenue derived from them, and that, if as a result it appears that applications of the former kind are sufficiently numerous to make the collection of the revenue worth while, a separate schedule containing them should be prepared and the remainder exempted; if, on the other hand, the yield is insignificant, all applications to Revenue and other officers not being courts of law should be declared free of tax.

Some of which are for the services of Imperial departments.

349. In this connection, it may be mentioned that it is somewhat anomalous, now that court-fees have become a source of provincial revenue, that there should be credited to the provinces the fees on applications to Customs officers, the chief of which are those on what are known as bills of entry. The Committee observe that a suggestion has been made that, if applications to officers of the Income-tax department are not already taxable, fees should be levied on them and credited to the provinces concerned. If it is necessary to impose a fee for services rendered by these Imperial departments at all, it would appear that the amounts in question should be credited to the Imperial Government. The Committee have, however, recommended that all fees of this nature should be abolished.

350 Under section 30 of the Court fees Act, nothing contained in Chapters II and V of the Act applies to the fees which any officer of the High Court is allowed to receive in addition to a fixed salary The Calcutta High Court Retrenchment Committee, 1923, have referred to various kinds of fees paid to officers of the High Court on the Original Side for work presumably done out of office hours They recommended that the emoluments of Government officers from sources of this kind should be scrutinised from time to time and that care should be taken that such employment does not interfere with the regular work of the officials concerned Under section 81 of the Presidency Towns Insolvency Act, the Official Assignee is entitled to receive for his remuneration the commission fixed by rules made by the Court The remuneration varies from year to year and the emoluments of this officer have tended to exceed that of any other public servant except the Governor, and even on occasion that of the Governor himself Both the Calcutta High Court Retrenchment Committee and the Judicial Retrenchment Committee of Madras recommended that the office of the Official Assignee should be reorganised, that permanent salaries should be paid to him and his establishment, and that the commission received by him should go to the public exchequer The two Retrenchment Committees above referred to also recommended that the fees earned by the Sheriff should be credited to the Government, and so far as this office is concerned it is understood that the recommendation has been accepted by the Madras Government and that there the office of Sheriff has been made honorary and the fees received by him are now paid into the public treasury There may be similar cases of the levy of fees in cash in other provinces It is obvious that all fees levied on Government account should primarily be credited to the Government, and that in the case of fees received by officers for the whole of whose time payment is made from the public exchequer, no exception should be made to this rule

Fees paid to officers

351 In conclusion, the Committee would venture to recommend that more adequate steps should be taken to ensure the full realisation of the Government revenue in the case both of court fees and of stamps It is generally supposed that these are revenues which collect themselves But the evidence before the Committee inclines them to think that too much confidence is sometimes placed in this idea The presiding officers of

The desirability of an audit of receipts

courts cannot be expected to regard themselves as fiscal officers of the Government, and the ministerial officers are apt sometimes to be careless, at others ignorant of the intricacies of the law and at others even to connive, for instance, at the withdrawal of insufficiently stamped documents. Again, there is evidence that, owing to failure to deface stamps, it is not uncommon for these to be abstracted and used again. Reference has also been made above to the absence of provision for recovery of deficient court-fees once a suit has been disposed of and to the necessity for amending this provision of the law. All these circumstances indicate a tendency towards leakage under this head of revenue, and it seems to the Committee desirable that there should be a systematic enquiry made into the matter. What they would recommend is in the first instance a set of sample enquiries by officers, trained both in the law of stamps and court-fees and in accounts procedure, in selected courts over a fixed period of time. If as a result there appears to be reason to think that a general loss of revenue is taking place, then they would recommend that action be taken to introduce a general audit of receipts from these sources.

CHAPTER XII —PROBATE DUTIES

Duties on inheritance are levied in most countries

352 Duties on inheritance or succession are levied in most of the countries of Europe, in several countries in the New World, in most of the British Colonies, and in some countries in Asia, such as Japan, Ceylon and the Straits Settlements Though various duties which were levied in ancient times, notably the Roman *vicesima hereditatum et legatorum*, introduced by Augustus in the year 6 A D , were of a like nature to succession duties, yet inheritance duties in their modern form are of comparatively recent origin In Europe the increased taxation necessitated by the Napoleonic wars led to the discussion, among other sources, of the possibility of large additions to the national exchequers by means of the taxation of properties devolving on death This idea gained support from, and was popularised by, the teachings of thinkers like Bentham, Mill and Bluntschli, who advocated drastic limitations of the right of unconditional succession Latterly, an extreme development of the theoretical possibilities of such duties has been set forth in the writings of the Italian Professor, Rignano

And constitute a large part of the revenue

353 The modern reliance upon the principle of ability to pay as the basis of taxation has led to the graduation of death duties In this form they occupy an important place in the taxation system of the countries in which they are imposed As a form of taxation which falls pre eminently upon accumulated wealth, they have found special favour with democratic thinkers In Great Britain the net receipts from death duties in 1921 22 and 1922 23 were £51,263,666 and £56,494,667 respectively They form 6 9 per cent of the total tax-revenue of the State occupying the fourth place after income tax (including super-tax) excises and customs duties In the fiscal system of Holland they are nearly as important, forming 6 2 per cent of the total tax revenue, as compared with 4 8 per cent in the United States of America and 2 2 per cent in Italy

Their introduction in India has been many times considered.

354. Duties on inheritance are by no means unknown in India. Under the Zamorins of Calicut a duty of 25 per cent was levied on the value of the estates of Muhammadan landholders.* A death duty is levied in Bikanir at the present day, graduated by degree of relationship up to a maximum of 20 per cent. The general introduction of similar taxation by the British Government was first considered in the year 1859 in connection with the discussions relating to the introduction of the income-tax, and the practicability and desirability of such a tax have since been discussed on numerous occasions. To a limited extent, that of the probate duties leviable from certain communities, duties of this class have been in force from an early period, and the rates of these duties were fixed in 1870 at the equivalent of the then English rates. The more general levy of inheritance taxes has, however, hitherto been thought inexpedient on various grounds, of which the chief were—

(a) that they would fall with special severity upon the landholding classes;
(b) that there would be great difficulty in the valuation of chattels;
(c) that the habit of investment was in its infancy;
(d) that there were no reliable figures of trading incomes on which the capital value of business concerns could be based ; and
(e) that the law of the Mitakshara joint family introduced complications which could not be surmounted.

The former objections examined.

355. The first objection has lost much of its force by reason of the continuous increase in the value of land, accompanied in the ryotwari tracts by a progressive moderation in the land revenue assessment and the increase in the proportion of taxation borne by the industrial classes. In 1903-04 the land revenue, including receipts from irrigation, formed 43 per cent of the total revenue of India; in 1923-24 the same two items formed only 21 per cent. This change is due, not only to large increases in the rates of other taxes such as customs, income-tax, and excises, but also to changes in the practice at land revenue settlements and to deliberate limitation of enhancements of the demand. Meanwhile, the amount of property in forms other than

* Maclean : Standing Information regarding the Official Administration of the Madras Presidency, page 84.

land has largely increased, and the difficulties of bringing such property within the scope of the machinery of taxation have diminished

The valuation of chattels is difficult, and leads to evasion in all countries Owing to the peculiar laws and habits of the people, such evasion is to be expected perhaps in a greater degree in India and to that extent would tend to throw a heavier burden on persons whose properties cannot easily be concealed But the fact that self-interest and legal ingenuity may be at work to defeat and escape the operation of a tax is not a sufficient ground for not levying it at all, though it may make it desirable to moderate its operation in particular respects

The growth of investments in this country can be judged from the following figures —

In 1923-24, the total value of Government paper stood at Rs 358 crores as against only Rs 93 crores in 1883 84 The total amount of paid up capital in joint stock companies, which stood at Rs 40 crores in 1904 05 amounted to Rs 222 crores in 1921 22 Deposits in the Post Office Savings Bank have risen from Rs 433 lakhs, the quinquennial average for 1882 83 to 1886 87 to Rs 2,226 lakhs in 1921 22 Every year the number of new life assurance policies is on the increase, with the result that, while the sum newly assured in 1919 was Rs 449 lakhs, that assured in 1923 was Rs 584 lakhs The total sum assured on life assurance policies other than postal insurance policies at the end of 1923 stood at 52 crores as against 39 crores in 1921 In addition, there were in force on the 31st March 1923 postal life insurance policies covering a total sum of Rs 682 lakhs

The extent to which the fund of investment is reached by the existing probate duties may be judged from the fact that, in the year 1920 21, out of a total of Rs 4,10,75,000 worth of property which paid the existing duties on probates in Calcutta, a sum of Rs 9,57,000 consisted of cash in banks, Rs 35,31,000 of Government securities, and Rs 1 96,07,000 of property in public companies In Bombay in the financial years 1921 22 1922 23 and 1923 24 business assets valued at Rs 1,74,83,646 paid duty in 131 cases

The objection that reliable figures of the income of traders have yet to be obtained has to a considerable

extent been met by the reform of the Income-tax department, and on this point the opinion of the witnesses examined before the Committee was almost unanimous.

The difficulties connected with the joint family system are no doubt real, and arise in relation both to the question of property to be assessed and to that of the machinery for collecting the tax. But the difficulties are not insuperable, as will be seen from what follows.

The distinction between a mutation duty and a succession duty.

356. An examination of the systems of inheritance taxation in force in different countries reveals two main forms which these duties may take, viz.—

(1) a transfer or mutation duty, which in principle is a duty payable by reason of the passing of property on death, regardless of its destination: the English estate duty is an example of this form; and

(2) an acquisition or succession duty. The succession and legacy duties in England are an example of this form, under which the tax is levied by reason of the acquisition by a beneficiary of assets belonging to a deceased person.

The mutation duty is levied because property has passed by death, and is graduated with reference to the total amount of property so passing. The legacy or succession duty looks, not to the size of the estate left by the deceased, but to the size of the separate shares received by the beneficiaries, and as the windfall element increases with the distance of relationship to the deceased, it is often graduated further on that principle.

The latter unsuitable to India.

357. On the subject of the joint family system under the Mitakshara law and the many different laws of inheritance in India, the Committee, as laymen, speak with diffidence. They are advised, however, that these two conditions generally put an acquisition duty on the lines of the English succession and legacy duties out of the question. The joint family is in the nature of a corporation which continues to exist and enjoy the property irrespective of the death of any particular member. Meanwhile, the systems of inheritance both among the Hindus and among the Muhammadans recognise a plurality of heirs, and the calculations connected with the division of property among them, and more particularly the minute fractions into which the shares of particular heirs may run, would

render the imposition of a succession duty, as distinguished from an estate duty, impracticable Nor would it be easy, in the medley of laws and customs of inheritance that exist side by side, to arrive at a uniform classification of heirs and a satisfactory scale of graduation according to relationship which would apply to all communities in India For these reasons also, a duty somewhat on the lines of the English estate duty appears to be more practicable, and may initially take the form of a transfer or mutation duty on death

358 For the satisfactory working of such a duty, the recognition of a representative of the deceased, wherever practicable, on whom the responsibility for the payment of the duty can be fixed, is desirable A grant of representation can be made conditional on payment of the duty and enforced by suitable provisions calculated to prevent dealings with the assets of the deceased in the absence of a grant In England, where a universal system of representation exists, the estate duty, so far as it is payable in respect of unsettled property, now largely collects itself, and the first knowledge that the British fiscal authorities receive that estate duty is payable in respect of such property is often actually derived from the fact of payment of the duty *A mutation duty involves representation of the deceased*

359 Provisions already exist in the Indian law for a compulsory system of representation, but it is limited as regards the area affected, the communities to which it is applicable and the circumstances in which it operates Under section 9 of the Administrator General's Act, 1913, the Administrator General is required to take necessary proceedings to obtain letters of administration in every case in which a person not coming under the definition of an exempted person* under the [illegible], leaving within his jurisdiction assets exceeding the value of Rs 1,000, if no person entitled to the [illegible] probate or letters of administration has applied for the same. The effect of this provision is that [illegible] representation is necessary in the case of [illegible] Armenians, Jews or persons of [illegible] who die testate or intestate, leaving [illegible] Administrator General [illegible] Rs 1,000 Sections 187 and 190 of [illegible] *This is already required in certain cases*

* Exempted [illegible]

make probate and letters of administration indirectly compulsory in a few more cases. Under section 187, where a will exists, no right as executor or legatee can be established in a court of justice unless probate or letters of administration, with the will or with an authenticated copy of the will annexed, have been obtained, and under section 190, in the case of intestacy, no right to any part of the property of a deceased person can be established in a court of law unless letters of administration have been obtained. These sections, however, necessitate probate or letters of administration only in cases where rights are sought to be enforced in courts, and there are decisions to the effect that they apply only to claims made by plaintiffs and not to those made by defendants. Muhammadans, Hindus and Buddhists are exempted from the operation of these provisions, while under section 332 of the Act the Government of India have power to extend the exemption to members of any other race, section or tribe. The Native Christian Administration of Estates Act VII of 1901 has since declared section 190 inapplicable to 'Native Christians'. The result in effect is that, in the case of Parsis, letters of administration are now necessary both in the case of testate and intestate succession, while in the case of Indian Christians, they are necessary only in the case of testate succession. Section 2 of the Hindu Wills Act, 1870, has extended section 187 of the Indian Succession Act to wills and codicils made by Hindus, Jains, Sikhs or Buddhists on or after the 1st day of September 1870 within the territories of the Lower Provinces of Bengal or the local limits of the ordinary civil jurisdiction of the High Courts at Madras and Bombay, and to such wills and codicils as, though made outside the above limits, relate to immovable property situated within them. Except to this extent there is no provision compelling probate or letters of administration either for Hindus or Muhammadans in the case of testacy or intestacy.

In addition to the above provisions, certain laws, such as the Government Savings Banks Act, 1873, the Post Office Cash Certificates Act, 1917, the Provident Funds Act, 1897, the Imperial Bank of India Act, 1920, the Indian Companies Act, 1913, and the Indian Securities Act, 1920, indirectly enforce representation, as they contain provisions under which the production of probate or letters of administration can be insisted upon

as a condition precedent to the payment of money or transfer of shares to the heirs of deceased persons A Bill is now before the Imperial Legislative Assembly, the aim of which is to enforce similar provisions in the case of claims made under insurance policies

The Succession Certificate Act, 1889, also contains provisions intended "to facilitate the collection of debts on succession and afford protection to parties paying debts to the representatives of deceased persons" by prohibiting the passing or execution of any decree for a debt due to a deceased person except on the production of a probate or letters of administration or a succession certificate under the Act

In the Bombay Presidency a certificate under Bombay Regulation VIII of 1827 offers an alternative to a probate or letters of administration or a succession certificate

In all other cases it is at present optional to take out representation, but the instances which have been given show that, to some extent and for certain limited purposes, the principle of representation is already in force

360 The duties levied under the Court fees Act on probates, letters of administration, succession certificates, or certificates granted under Bombay Regulation VIII of 1827—all of which for the sake of convenience will hereafter be referred to as 'probate duties'—though levied in the form of court-fees, partake to some extent of the nature of the death duties of other countries Prior to 1910, they were levied at the flat rate of 2 per cent in respect of probates, etc , relating to properties exceeding Rs 1,000 in value, but by Act VII of 1910, the principle of graduation was introduced in the rates, which thereafter stood thus

And a considerable amount of taxation is levied in the shape of probate duties

	PER CENT.
Where the amount or value of the property exceeded Rs 1,000, but did not exceed Rs 10,000	2
Where the amount or value of the property exceeded Rs 10,000, but did not exceed Rs 50,000	2½
Where the amount or value of the property exceeded Rs 50,000	3

The maximum has since been raised in Bengal, Bihar and Orissa and Assam to 5 per cent and was raised in Bombay for three years to 7 per cent.

In spite of the limited scope of the duties, a considerable revenue is derived from them, which amounted in 1923-24 to 36 lakhs of rupees, distributed as follows:—

	RS.
Madras	2,35,653
Bombay	13,84,438
Bengal	15,32,206
Bihar and Orissa	35,651
Assam	34,457
Punjab	26,559
United Provinces	1,72,324
Central Provinces and Berar	19,170
Burma	1,83,804

The high figure for Bengal is explained by the fact that the Hindu Wills Act is in force throughout the province. As a consequence, duty is levied in Bengal, not only on business assets and investments, but also on a considerable amount of real property. The value of real property which paid duty in 1920-21 exceeded a crore of rupees.

These taxes are inequitable in their incidence.

361. The existing duties are very inequitable in their incidence. This is determined, as already pointed out, by race, religion or locality. The assets in India of Europeans, Eurasians, Armenians, Jews and persons of foreign domicile must pay duty whether there is a will or not, or whether any right is sought to be established in court or not. The estates of Parsis, whether there is a will or not, and the estates of Indian Christians, where there is a will, must pay duty wherever the estate be situated in India, though only when a right is sought to be established in the courts. The estates of Hindus, where there is a will made in, or relating to, immovable property situated in the Lower Provinces of Bengal or the cities of Bombay or Madras, must also pay duty, but again only when a right is sought to be established in the courts. The estates of all Muhammadans who die testate or intestate, the estates of all Hindus and Indian Christians who die intestate, and the estates of all Hindus who die leaving wills not falling within the scope of the Hindu Wills Act need pay no duty, unless the parties themselves apply for and obtain probate or letters of administration.

Secondly, there is no just apportionment between large and small estates. In England, not only are estates not exceeding £100 exempt, but there is provision for the payment of a fixed duty of 30s. on small estates the

gross value of which does not exceed £300, and of 50s, which includes all other death duties, on estates of a gross value exceeding £300 and not exceeding £500 In India, on the other hand, a duty of 2 per cent has to be paid on the value of the smallest debt or security in respect of which a succession certificate is applied for, and in a majority of the provinces the probate duty of 2 per cent where due is payable on all estates of a value exceeding Rs 1,000 Thus, not only are certain classes of the community selected for taxation, but the tax also falls with undue weight on the members of those classes which are least able to bear it

Their extension is provided for under the Devolution Rules

362 The extension of these duties to the communities to which they do not apply has often been advocated in the past, and is supported by a number of non official witnesses who have given evidence before the Committee Item (2) of schedule I of the Scheduled Taxes Rules is "a tax on succession or on acquisition by survivorship in a joint family", and under part II of schedule I of the Devolution Rules, taxes included in the schedules to the Scheduled Taxes Rules are sources of provincial revenue The expression "on acquisition by survivorship in a joint family" shows that the extension of the duties to Hindus was contemplated

The extension of general representation would benefit the communities concerned

363 Apart from any question of taxation, the extension of a general system of representation to the communities in which it is not at present in force, would be of manifest advantage to the communities themselves Their laws of inheritance recognise a plurality of heirs and interests requiring protection, and this fact itself renders an intermediate representation necessary At present among the Hindus, the laws relating to adoption self-acquisition, partition and reversionary rights give facilities for dishonest debtors or designing relatives to traffic in family dissensions when property passes at death A system of universal representation would curtail these activities In the case of both Hindus and Muhammadans it would be of practical value to the honest debtor as an indemnity It would clothe the nearest relative or the person who has the greatest interest in the estate with a representative capacity which could not fail to be of great use and assistance in dealing with strangers, either creditors or debtors of the deceased's estate, instead of leaving the estate to be got in and distributed by such fortuitous means as might be available. Besides, where property had to be sold to discharge debts,

or even for the purpose of making a division, the purchaser could deal with a duly appointed legal representative instead of with a number of persons claiming to be interested in the estate: purchasers would obtain a more secure title, and this security would in turn lead to an enhancement of the value of the property. The fact of representation would thus save the estate from loss and spoliation. It would also solve a very difficult question which arises where a Hindu or Muhammadan suitor, plaintiff or defendant, dies, and it becomes necessary to appoint a representative to carry on the suit or to defend it. At present, it not seldom happens that persons uninterested in the property are placed on the record. The suit or proceeding goes on, much to the detriment of the property, which is left with no proper representative, to a decision which lacks the finality which decisions of courts should possess. Compulsory representation would also remove difficulties in the way of the transfer of shares belonging to deceased persons, the claiming of moneys due on insurance policies and similar matters.

And was recommended in the case of wills by the Civil Justice Committee.

364. In the particular case of wills, it will be seen from the statement of objects and reasons to the Hindu Wills Act that a proposal to make probate universal found favour as long ago as 1870, while the Civil Justice Committee have commented on the absence of any such provision in the following terms:—"With no system which compels any person to place before a judicial tribunal a testamentary instrument within a reasonable time following the death of the testator, it is not unusual for wills to be put forward many years after."* Wills are not required by law to be registered and the only way of preventing a spurious will being set up years after a man's death is to require that wills should be admitted to probate before they are acted upon, and so to diminish the possibilities of perjury and fraud by bringing matters to a head within a fixed limit of time. The Committee added, however, "Unfortunately when we come to consider whether probate of such wills should be made compulsory, the question of law reform meets a question of finance. . . . Considering the matter entirely in the interests of the administration of the law, it appears to us, however, to be a pity to rule out an extension of the provisions of the Hindu Wills Act to provinces outside Lower Bengal for purely financial reasons"†. It is hoped that the proposals

* Report of the Civil Justice Committee, page 469.
† Ibid, page 470.

which will be made below are such as will provide for a suitable combination of the two objects.

365. In the case of intestacy, the objection has been raised in the past that the introduction of a compulsory system of letters of administration would "impose upon a multitude of poor and ignorant people in cases where there was no difficulty or dispute an unnecessary amount of trouble and expense." * This presupposes a law of universal application. If, however, a fairly high limit of exemption be imposed, the objection vanishes and the operation of the law is limited to persons who are likely to realise its advantages. The objection taken in the case of intestate succession

366. It is therefore recommended that, alike for the purpose of introducing a general inheritance tax in India on the lines of least resistance, and for that of removing the inequalities in the incidence of the existing probate duties, and as a necessary measure of law reform, an attempt should be made to introduce into this country a system of representation on the lines of that in force in the United Kingdom, in other words to extend the existing law of probate to all communities. To ensure the success of the scheme at the initial stages, the limit of exemption should be placed not lower than Rs. 5,000, and even on sums exceeding that figure, the duty payable should not be high. The duty may be in accordance with the following scale:— The Committee recommend an extension of the existing law.

	RS.	PER CENT.
	5,000	Nil
Next	5,000	½
"	10,000	1
"	30,000	1½
"	50,000	2
"	1,00,000	2½
"	3,00,000	3
"	5,00,000	4
"	10,00,000	5
Amount in excess of	20,00,000	6

A maximum of 5 per cent already obtains in the provinces of Bengal, Bihar and Orissa and Assam and one of 6 per cent has been suggested in the Report of the Select Committee on the Court-fees Amending Bill now before the Central Legislature.

* Speech by the Hon'ble Mr. Stokes, dated 5th June 1879, in introducing the Probate and Administration Bill, 1879, in the Council of the Governor-General.

Cases of estates under Rs. 5,000 should be governed by the existing law of probate, but should pay only a fixed duty of Rs. 5 instead of the rates at present provided by the Court-fees Act.

The steps necessary to give effect to this.

367. While it is desirable to effect the extension of the existing law of probate to the communities that are at present exempted from its operation with as little disturbance of the existing provisions as possible, it is not easy in the confused state of the law as above described to suggest means of doing so.

The first step would appear to be to delete from the Bill now before the Central Legislature for the consolidation of the law applicable to intestate and testamentary succession the clauses exempting various communities from the operation of the provisions therein which reproduce sections 187 and 190 of the Indian Succession Act, 1865, subject to an exemption in the case of small estates. This would have the effect of rendering it impossible for any person to establish a right in a court to any part of the estate of a deceased person unless he had taken out probate or letters of administration.

In the next place, provision might be made preventing mutation in respect of land, shares and other forms of property passing on death, of which a mutation is required for purposes of title, except on production of probates or letters of administration.

In the third place, a provision might be introduced, such as is contained in section 37 of the English Stamp Act of 1815, 55, Geo. III, Chapter 184, under which a penalty is prescribed for taking possession of, or administering the effects of, a deceased person without obtaining probate or letters of administration within six months of death, or two months after the termination of any suit or dispute respecting the will or the right to letters of administration.

It is probable that these three provisions would suffice to secure the taking of steps for representation in the great majority of cases, but to provide for the residue, it might be desirable to take the further step of extending the operation of section 9 of the Administrator-General's Act to all communities with the difference that, whereas it is compulsory on the Administrator-General to take action in the case of the communities at present covered by it, it might be made optional for him to do so in

respect of the rest This modification is proposed because it is possible that to make it compulsory in all cases might, at least in the earlier stages, involve an extension of the operations of the Administrator-General and his agents such as would be neither practicable nor desirable

These provisions should be inapplicable throughout to estates of less than Rs 5,000 except in so far as they are applicable under the present law

368 The persons entitled to a grant should ordinarily be those entitled to the same under the Probate and Administration Act, where the deceased had left a will, they would be an executor, if any, a universal or a residuary legatee, the person or persons entitled to the administration of the estate if the deceased had died intestate, any other legatee having a beneficial interest, or a creditor Where the deceased had left no will, administration of the estate might be granted to any person who, according to the rules for the distribution of the estate applicable in the case of such deceased, would be entitled to the whole or any part of such deceased's estate Where several such persons applied for administration, it should be in the discretion of the Court to grant it to any one or more of them The usual provisions relating to the execution of a bond by the person to whom the administration was granted for the due collection and administration of the estate would continue

Persons entitled to probate

369 The effect of the above provisions would be to vest in the executor or administrator all property situated in India of which the deceased was at the time of his death competent to dispose They would not, however, operate to vest foreign property, settled property, or property passing by survivorship, including the property of a joint Hindu family As regards foreign property, express provision might be made vesting such property in the executor or administrator, but as regards other properties which do not so vest, it would be necessary to provide that, to the extent that it is intended to include such properties in the scope of the charge, the executor or administrator should be bound to include them so far as he was aware of their existence in the affidavit leading to probate or letters of administration and to declare their value, if known The duty would then be collected on an account to be furnished by the person in whom such property was vested and to whom it passed by

The case of foreign or settled property or properties passing by survivorship.

survivorship. In the case of Hindu joint family property this person would ordinarily be the managing member or senior male member, but there would seem to be no objection to accepting an account from any responsible member of the family. For the purpose of determining the rate of duty payable, the value both of property which does and of property which does not vest in the executor or administrator should be aggregated.

Property chargeable.

370. Subject to the provisions above stated, the principle of the law of estate duty in England might be adopted. In other words, where a deceased person dies domiciled in India, the duty should be chargeable on all his property, both movable and immovable, situated in British India *and on his movable property situated abroad*: but where he is not domiciled in India at the time of his death, it should be chargeable on his movable and immovable properties situated in India, but not on any of the properties situated abroad. Dr. Paranjpye would agree with this provision only if for the purposes of these duties a person who is employed and is ordinarily resident in India for two years before death is regarded as having been domiciled in India.

As regards the locality of intangible property, the following general propositions of the English law may be accepted:—

(1) The locality of a security payable to bearer or other security transferable by delivery is determined by the actual situation of the document of title at the time of death.

(2) The locality of a security transferable by entry on a register (e.g., an ordinary share in a public company) is determined by the actual situation of the register.

(3) The locality of a debt or other right enforceable at law is the place where the right of recovery can be enforced.

The difficulty of charging chattels in India has already been referred to. The Committee have no information as to the extent to which chattels are actually charged under the existing probate law. They do not propose any general amendment of the law in this respect. But they think it would be well, at least on the first introduction of the law into rural areas, to have provision under which this class of property can be excluded from the charge by rules made under the law.

Deductions allowable.

371. At present, in valuing the estate of a deceased person for the purpose of probate duty, allowance is

made for debts, funeral expenses, property held in trust and other property not subject to duty This may continue to be the law

372 It is desirable, in so far as it is practicable, to include within the scope of the duty gifts made within a year of death, which should be treated for purposes of this duty as part of the assets of the estate *Gifts inter vivos*

373 One of the difficulties which have been raised in connection with the question of assessing the property of an undivided member of a Mitakshara joint family to an inheritance tax, has to do with the procedure to be followed in such assessment, whether it should be on the hypothetical basis that the Dayabhaga law is in force, or whether the property should be taxed only on the death of the managing member, or whether the share of the deceased person should be taxed as if a partition had taken place on the day of his death The most acceptable alternative is undoubtedly the last one, as otherwise the duty would in effect have to be levied on properties not passing on the death of the deceased *The basis of assessment*

374 It is sometimes urged that inheritance taxation ought not to apply to the property of a Mitakshara joint family on the ground that, on the death of a co parcener belonging to such a family, there is no mutation or acquisition which gives occasion for the levy of a duty But it cannot be denied that a member of a Mitakshara joint family possesses a beneficial interest in the properties of the family during his lifetime, which he can sell or mortgage, and in some provinces, even dispose of by gift, and of which he can get a partition during his lifetime by suit, or effect severance by a mere unequivocal declaration communicated to the other members of intention to hold separately This interest clearly passes on the death of the member, and is therefore a proper subject for a tax in the nature of a mutation duty In the similar case in England, where property or an interest in property passes by survivorship, it is valued for purposes both of estate duty and succession duty Again, in the Bill to amend the Court fees Act now before the Central Legislature, it is expressly provided that, if any member of a joint Hindu family governed by the Mitakshara law applies for probate or letters of administration in respect of the estate of a deceased member of the joint family, such estate shall not be deemed to be property held in trust, and the applicant shall pay *The objection that there is no succession in a joint family*

a fee on the value of the share in the joint family property which the deceased would have received if a partition of the property had been made immediately before his death. In the opinion of the Committee, this provision is based on the correct principle that there is no objection to subjecting to duty property or an interest in property passing by survivorship on the death of a co-parcener in just the same way as property or an interest in property passing by inheritance is so subjected.

The case of minor co-parceners.

375. The argument that, owing to the death of minor co-parceners, the occasions for the levy of the duty would be much more numerous under Hindu Law than under other systems of law, may be met by providing that, in the case of property belonging to a Mitakshara family, no duty shall be charged on the death of minors who have any male ascendants living. In the case of separate property, however, no such exemption should be made.

The case of the Malabar *tarwad*.

376. The case of the Malabar *tarwad* is peculiar in that the right of an individual member thereof to demand or enforce a partition is not recognised, and that, except with the consent of all the members, there can never be a partition. The only alternative as regards the property belonging to such a body is to levy, instead of an inheritance tax as above described, an annual tax of the same nature as the corporation tax in England, the minimum limit of exemption being dependent on the number of people supported by the *tarwad*.

Oral partitions and relinquishments should not be recognised.

377. To prevent evasions of the duty on shares of deceased members by allegations of oral relinquishments or partitions, it should be provided that no partition or relinquishment of family rights would be recognised for the purpose of the duty except those represented by registered instruments.

Settlements and *wakfs*.

378. Settled property in respect of which the settlor retains any beneficial interest should, on the death of the settlor, be treated as part of his estate to the extent of such interest, but thereafter such property should be exempt from duty during the continuance of the settlement and until it passes into the hands of some person competent to dispose of it. A similar provision may be made to cover the case of a private *wakf* made partly in favour of the person who makes it.

Valuation for purposes of duty.

379. Valuation of properties for purposes of death duty should be in accordance with the market value at

the date of death To prevent inquisitorial enquiries as to valuation of chattels and harassment by officials administering the tax provision should be made empowering Local Governments to make rules for the exemption of chattels not being the stock in trade of any trade or business and for the arbitrary valuation of land in specific areas or in classes of cases

380 An objection that has from time to time been raised to the universal extension of the existing law of probate and letters of administration is that the existing number of courts would be insufficient to cope with the work that would be involved At present only District Judges have jurisdiction in granting and revoking probates and letters of administration though the High Court has power to appoint from time to time such judicial officers within any district as it thinks fit to act for the District Judge as delegates to grant probates and letters of administration in non contentious cases within such local limits as it may from time to time prescribe It may be pointed out that, in the event of the proposals above made being adopted the bulk of the cases involved would be uncontested while the diminution in other kinds of litigation consequent on the introduction of a universal system of representation would to some extent compensate for the expenditure of time on this work Further, if probates and letters of administration are made universal District Munsifs and Subordinate Judges may be given jurisdiction up to limited amounts In addition Probate Registrars may be appointed to deal with non-con[illegible] cases within such localities as may be prescribed They should preferably be officers connected with the Revenue Department Applications for probate and [illegible] of administration and accounts in the case [illegible] property should ordinarily be presented [illegible] to them In contentious and doubtful cases [illegible] be required to transmit a statement of th[illegible] Court [illegible] jurisdiction and to proceed [illegible] to the instructions issued by the [illegible] should have power of disposal [illegible] of appeal against the [illegible] Registrars and District [illegible]* [illegible] from Subordinate Judge [illegible] Court in the manner [illegible] and Administration Act [illegible]

Machinery for administration

* [illegible]

† [illegible]

The duty to be paid in stamps.

381. The duty should be paid by means of a stamp affixed to the affidavit leading to the grant of probate or letters of administration. Probate Registrars and Courts should have power to issue grants even in cases where the full stamp had not been paid, and to require the person entitled to the grant to execute a bond for the due payment of the duty. Courts should have power to transmit cases to the Probate Registrars for the purpose of valuing properties or obtaining bonds, and on their certificates that the proper duty had been paid or that a satisfactory bond had been obtained therefor, to issue probates or letters of administration. In the case of joint family properties, the account furnished by the managing member should similarly be liable to be stamped with the requisite duty, the officers concerned being given power to take bonds whenever expedient.

Legislation should be central.

382. It only remains to consider the question of the authority which should carry out the proposed legislation. Under the Scheduled Taxes Rules the power to impose a tax on succession or on acquisition by survivorship in a joint family has been given to local legislatures, principally, as the Committee understand, because it was contemplated that duties of this kind would be collected in stamps, and stamps are a provincial source of revenue. Even in this limited aspect of the question differences have already arisen through the changes made under the Court-fees law in the rates of duty payable under articles 11, 12 and 12-A of schedule 1 to the Court-fees Act, and in the Bill recently introduced for the purpose of revising that Act the Government of India have proposed to restore uniformity in this matter. While such uniformity is desirable from the purely taxation aspect of the question, it is even more so from another aspect. The proposal now made is to extend the law of probate to communities to which it is not now applicable, and while any local legislation in that direction would require the previous sanction of the Governor-General, inasmuch as it would involve the amendment of enactments included in the schedule to the Local Legislatures (Previous Sanction) Rules, it is at the same time obviously highly undesirable that changes affecting the personal law of communities should be made by local legislatures in a manner which might result in different provisions for the same community in different parts of India. On both these grounds, therefore, the Committee would recommend that legislation dealing with the whole question should be undertaken by the Central Legislature.

CHAPTER XIII.—LOCAL TAXATION

383. While all taxes are in a sense payments for services rendered directly or indirectly by the governing authority to the tax payer, this feature is present in a much more conspicuous degree in the case of local taxation than in that of taxes levied for the general purposes of the State. Some local taxes are specifically levied for the purpose of procuring particular amenities for the inhabitants of particular localities and earmarked for the purpose. Others are levied for purposes of a more general character. This distinction has led to the classification of local services into two categories entitled 'beneficial' and 'onerous', which were distinguished by the Royal Commission on Local Taxation, 1901, from whose report the following is an extract :— *Local taxation has a large element of payment for services rendered*

> "We believe that the only method which can secure fair play all round is consistent adherence to a principle which has often been put forward in discussion, but to which insufficient regard has frequently been paid in practice. That principle is the distinction between services which are preponderantly National in character and generally onerous to the rate-payers, and services which are preponderantly Local in character and confer upon rate payers *a direct and peculiar benefit, more or less commensurate* with the burden. The distinction cannot, it is true, be drawn with absolute logical precision. In many cases it is plain enough, e.g., just as water-rates are held to be payments for service rendered rather than taxes, so also it is clear that drainage works are a local benefit of a similar kind. But in other cases, the two elements are combined in different degrees, since almost all useful local expenditure is indirectly advantageous to the country at large. But a service may be called properly local when a preponderant share of the benefit can be directly traced to persons interested in the locality. On the other hand, universality and uniformity of adm[illegible] [illegible] generally a mark of a national service, [illegible]

> such administration does not confer special benefit on special places. Again, the presumption is that a service is national when the State insists on its being carried out, and on a certain standard of efficiency being reached."

A slightly different terminology was adopted by the Departmental Committee on Local Taxation appointed in 1912, as the terms 'beneficial' and 'onerous' had given rise to considerable confusion of thought in regard to the proper amount of assistance to be given by the State to local authorities. This Committee divided locally administered services into two classes—

(1) Local services, i.e., those which are carried out and controlled almost entirely by local authorities in the interests of their respective localities and are not to any marked extent for the benefit of the nation as a whole; and

(2) semi-national services, or those which are administered by local authorities, but in which the State has at the same time so marked an interest in their efficiency as to justify a claim to the supervision of their administration.

The nature of local bodies in other countries.

384. In endeavouring to see what principles underlie the systems of local taxation in other countries, it will perhaps be useful, instead of examining the systems country by country, to attempt to arrive at general conclusions as to the nature of the local self-governing bodies, the nature of the functions which they perform and the manner in which they are furnished with funds for the purpose. It is proposed to take as examples the local self-governing bodies of the United Kingdom, France, Prussia and Japan.

The unit of administration is generally something corresponding to the Indian village, namely, the parish in England, the *commune* in France and Prussia, and the village in Japan. This is generally governed by a council with an elected head. The villages are grouped for purposes of assessment of taxes into unions in England, *arrondissements* in France, circles in Prussia and counties in Japan. There are other groupings for electoral, judicial and other purposes, but these have little concern with local self-government. The next effective grouping for that purpose is into counties in England, *departements* in France, provinces in Prussia, and prefectures

in Japan These groups are governed by councils presided over by the Chairman of the County Council in England, the *Prefet* in France the 'Chief President in Prussia and the Prefectural Governor in Japan In the case of towns a similar organization obtains with a slight alteration in name, and there is much less difference made than in India between the local administration of the towns and that of the rural areas There are of course many minor differences in the organization of the bodies only the chief points of similarity of which have been brought out The latter are the points which are most instructive for the present purpose

385 The services performed are very similar in all cases and may be divided into six large groups as follows — The functions performed

(a) Education including libraries, museums and picture galleries
(b) public health including water supply, drainage hospitals conservancy town improvement lighting and regulation of traffic, housing of the working classes registration of vital statistics and vaccination,
(c) communications including highways paths and bridges
(d) poor relief including the maintenance of pauper lunatics and defectives the provision of asylums and the care of the unemployed
(e) police including prisons lock up houses and assize courts,
(f) agriculture including rural industries diseases of animals and destructive insects and pests

There are of course several cases in which the bodies in question perform only a part of the functions included in this list while on the other hand in some cases important additions have been made to it For instance in Prussia the local bodies take a large share of the administration of the State insurance scheme against ill health old age and disability In Japan the local authorities collect some of the prefectural and central taxes receiving a subsidy to cover the cost of collection Similar bodies in many countries perform functions connected with the elections to the central legislative bodies, such as the registration of electors

The local bodies do not undertake the whole of the responsibility for the services referred to, but where they do, the first and main responsibility is on them In

the case of the police, the authority is divided. In England, the State undertakes the control of the police forces and makes contributions from the central Exchequer, and the local authorities maintain the police forces and meet the expenditure. In France, the State undertakes the maintenance of the general police force of the country, and the local authority the rural police. In Prussia, in the larger towns, there is usually a State police organization; in the smaller towns the police are partly State and partly municipal; while in very small towns the police are completely under municipal control. In Japan, the police are attached to the prefectural Government except in Tokyo-fu, where the Metropolitan Police Board is under the direct control of the Home Office. The expenditure on police is met by the prefecture, and no part of it is borne by the cities or towns and villages.

The taxes levied.

386. In the matter of finance, there is much more difference between the systems of the countries taken as examples than in the matter of the constitution of the bodies or of the functions assigned to them. In Great Britain, the chief source of the revenues is taxation, generally rates on land; in Prussia it is income from land and property belonging to the *communes*; in France it is taxation, largely levied on trade and in the shape of surcharges on the State taxes; and in Japan, which follows the French method, the main dependence is on surtaxes. There is, however, more similarity in the sources of the revenues than would at first sight appear. Thus, in all cases there is a large dependence on taxes on land and other property. In Great Britain, this amounts to about 63 per cent of the whole revenue, and to about twenty-five times the amount of the land tax. In France, the four old taxes which once formed the mainstay of the State revenues have since 1917, when the schedular income-tax became effective, been made sources of local revenue. The first three of these were all taxes on land and property, viz., the tax on land and houses (*contribution foncière*), the tax on the letting value of houses occupied by the tax-payer (*contribution personnelle mobilière*), and the tax on doors and windows (*contribution des portes et des fenêtres*). In Prussia, from 1893 to 1923 the whole of the taxes on land and buildings were made over to the local bodies, which still receive the bulk of the proceeds. In Japan, the rate on property is the chief of the local taxes.

The next principal item of revenue was until recently derived from surcharges on State taxes Thus, in France there was a surcharge on the principal items of State taxation In Prussia, the income tax for local purposes is levied in the form of a percentage addition to the State income-tax In Japan, cities, towns and villages levy surcharges on the four national taxes, i e land, income, business and mining, and on the prefectural taxes such as the household rate and house tax

Other sources consist of licenses for places of entertainment, taxes on carriages and vehicles, and other fees and tolls

387 The development of local self government in India in its present form commenced in the three Presidency towns which were the earliest to come under British rule A Corporation was established by Royal Charter in Madras as early as 1687 on the model of similar institutions then existing in England It was empowered to levy taxes, but the first attempt to impose a direct tax was strongly resisted by the inhabitants, and ultimately the Mayor was compelled to ask for permission to levy an octroi duty on certain articles of consumption to meet the cost of cleaning the streets Similar institutions were introduced in Bombay and Calcutta in 1726, but it was not until 1793 that the municipal administrations were placed on a statutory basis by the Charter Act of that year, which empowered the Governor-General to appoint Justices of the Peace for the Presidency towns from among the company's servants and other British inhabitants These Justices of the Peace were authorised to levy taxes on houses and lands to meet the cost of scavenging, police and maintenance of roads The constitution of these bodies was widened between the years 1840 and 1853 by a limited introduction of the elective principle but the privileges were withdrawn in 1856, when municipal functions were concentrated in a committee consisting of three nominated and salaried members

The development of Local Self Government in India—the Presidency Corporations

388 The second stage in the development of local self-government in India, namely, the introduction of municipal institutions into mufassal towns, begins with a Bengal Act of 1842 which, however, proved inoperative since its introduction in any town required the voluntary application of two thirds of the householders Its place was taken in 1850 by an Act applicable to the

Mufassal municipalities

whole of India, under which provision was made for the levy of indirect taxes. This was brought into effect in several towns in the North-Western Provinces and Bombay, where the existence of a *moturpha* and town duties under the Mahratta Government had familiarised the people with municipal taxation. It was, however, never utilised in Madras, where voluntary associations for sanitary and other municipal purposes took the place of regularly constituted municipalities. In Bengal, the Town Police Act of 1856 permitted the levy of taxation for conservancy purposes.

The next stage in the growth of municipalities owed its inauguration to the report of the Royal Army Sanitary Commission, published in 1863, which, though primarily dealing with Army affairs, drew prominent attention to the filthy condition of the towns. In the six years following the publication of this report a series of Acts were passed providing for a wider extension of municipal administration, and a number of municipalities were constituted in every province.

Local boards.

389. In the meanwhile, a parallel development of local institutions in rural areas was taking place. Voluntary associations for local improvements in rural areas had already been in operation for some time in Madras and Bombay, but the levy of rates for local purposes was not authorised by statute in any part of India until 1865, when an Act authorising the imposition of a cess on land and a tax on houses in Sind was passed. A similar Act was passed in Madras in 1866 and Bombay followed suit in 1869.

The Acts of 1871.

390. The scheme of financial decentralisation introduced by Lord Mayo's Government in 1871 was the next important step in the progress of local self-government. The most prominent features of this scheme, so far as municipalities were concerned, were the extension of municipal activities and the introduction of the elective principle. Many of the municipalities were also simultaneously relieved partly or wholly of their expenditure on police. Acts were at the same time passed for Madras, Bengal, the North-Western Provinces and the Punjab for the purpose of establishing local bodies for rural purposes on a firm basis. In Madras the country was divided into local fund circles, and consultative boards nominated by the Government and under the

presidency of the Collector were constituted to administer the affairs of these circles The Bengal District Road Cess Act of 1871 provided for the levy of a rate on real property for the improvement of communications and established local bodies the members of which might either be nominated or elected by the rate payers Similar Acts were passed in the United Provinces and the Punjab

Further developments in the eighties

391 The next and perhaps the most important land mark in the development of local self government is associated with the Government of Lord Ripon The Government of India in May 1882 issued a resolution in which they indicated the lines on which the future development of municipal and rural boards should take place Almost all the municipalities were relieved of the burden of maintaining the town police, and some items of provincial revenue which were capable of development under local management were transferred from the provincial accounts with a proportionate amount of provincial expenditure for local objects A wide extension was given to the elective system and many municipal councils were permitted to elect non official chairmen The Government of India pointed out in the resolution that the district committees or boards had been a failure mainly owing to the inadequate "attendance of members possessing local knowledge of outlying parts of the district with the result that undue attention was paid to the area adjoining the district headquarters They suggested that in introducing legislation for the constitution of rural boards the smallest administrative unit—the sub division or the taluk or the tahsil—should ordinarily form the maximum area to be placed under a local board The boards were also to contain a large preponderance of non official members, chosen, where practicable, by some system of election

This resolution resulted in the passing of fresh Acts in all the principal provinces between 1883 and 1885 for the reorganization of municipalities and rural boards on the lines suggested by the Government of India The primary functions of the municipalities under these Acts were—

(1) the construction upkeep and lighting of streets and roads and the provision and maintenance of public and municipal buildings,
(2) public health including medical relief, vaccination sanitation, drainage and water-supply, and measures against epidemics,
(3) education

The principal sources of revenue were—

(1) octroi, principally in Northern India, Bombay and the Central Provinces;
(2) taxes on houses and lands in Madras, Bombay, Bengal, Burma and the Central Provinces;
(3) a tax on professions and trades in Madras and the United Provinces;
(4) road tolls in Madras, Bombay and Assam;
(5) taxes on carts and vehicles;
(6) rates and fees for services rendered in the shape of conservancy, water-supply, markets and schools.

The services entrusted to rural boards were similar to those made over to municipalities, the principal being communications, education and sanitation, and occasionally famine relief. The main income of these boards was derived from a cess on land, which was collected by Government agency along with the land revenue, the proceeds being subsequently adjusted to the credit of the boards. In some provinces, however, a portion of the cess was utilised for provincial purposes.

The Decentralization Commission.

392. Such was the state of affairs when the Royal Commission on Decentralisation in India was appointed in 1907. The recommendations of this Commission were responsible for a further development of local self-government in India. The principal recommendations in relation to municipalities were that municipal councils should ordinarily contain a substantial elective majority and should usually elect their own chairmen, that the municipalities should have full powers in regard to taxation within the limits of the laws, and that they should have complete control over their budgets, subject to the maintenance of prescribed minimum balances. The Commission recommended the extension of similar financial privileges to rural boards, and the apportionment of the cess on certain lines among the district boards and the sub-district or taluk boards.

Village panchayats.

393. The most important recommendation of the Commission, however, was in respect of village panchayats. The village in India has been from time immemorial the unit of revenue administration and has survived all changes in the upper structure of the Government. Under pre-British administrations the village was practically an autonomous body, since the rulers never interfered with the village organization and generally fixed the responsibility for payment of the State revenue on the

village itself or some large landholder. Under British rule, the village lost part of its autonomy and some of its characteristic features owing "to the establishment of local civil and criminal courts, the present revenue and police organization, the increase of communications, the growth of individualism and the operation of the individual ryotwari system which is extending even in the north of India."* It still continues to be the unit of administration for revenue purposes, and in many provinces it maintains its own police, but except in a few cases it has ceased to be a unit of administration for purposes of local self-government. The desirability of reviving the village panchayats for the administration of local affairs was very strongly urged by the Decentralization Commission of 1909 in the following terms:—

> "We are of opinion that the foundation of any stable edifice which shall associate the people with administration must be the village, as being an area of greater antiquity than administrative creations, such as tahsils, and one in which the people are known to one another and have interests which converge on definite and well-recognised objects like water-supply and drainage. It is probable indeed that the scant effort hitherto made to introduce a system of rural self-government is largely due to the fact that we have not built up from the bottom."†

It was a long time, however, before these recommendations took effect, and the next group of Acts relating to local self-government were passed about the period of the Reforms. The general tendency of these is to increase the taxation powers of local bodies and to relieve them of official influence and control. Acts have also been passed for the constitution of village panchayats, which have been given certain limited powers of taxation and have been entrusted with certain specific duties connected with village affairs. There has been noticed one important group of them in Bengal, Bihar and Orissa, where the line of development has been to take over again the old functions of village police and to develop the *chowkidari* tax into a tax for general and local purposes. In Madras a far wider discretion in the

* Report of the Royal Commission on Decentralization, paragraph 696.
† " " " 699.

matter of taxation and of functions has been given, and though the panchayats are not yet very numerous, the scope of their activities in the matter of imposing taxation on the villages is already remarkable. The following represents an attempt to classify the taxes so far imposed:—

(a) A house tax based on—

(1) capital value,

(2) nature of structure (terraced, tiled or thatched),

(3) linear dimensions, and

(4) annual rental value.

(b) Taxes on professions based on—

(1) class of business, such as money-lenders, petty traders, tanners, renters of toddy shops;

(2) the income of the individuals; and

(3) the value or quantity of articles sold in the case of tradesmen, as, for instance, a charge on each gallon of liquor sold, or per cart-load of rice or paddy sold by the grain merchant.

(c) Fees for the occupation of cattle-stands, threshing-floors, village-sites, cart-stands, markets, market-sites, slaughter-houses, choultries, chattrams, travellers' rest-houses.

(d) License fees on tea-houses, coffee shops, refreshment rooms, brick kilns, oil mills, hides or skin depots, and travelling shows.

(e) Fees which are in the nature of an octroi or import duty, as, for instance, small charges on grain exported or articles imported into the village, the unit of assessment usually being a cart-load.

(f) A light poll tax for general or specific purposes and sometimes graduated according to the income of the family, as, for instance, a tax per family per month to meet the cost of watching the drinking water tank.

(g) A tax on land on an acreage basis for specific purposes, such as clearing channels.

(h) Special fees for each house for specific purposes, such as scavenging

The taxation powers of panchayats in Bombay and other provinces are somewhat similar, though the discretion given in respect of the nature of the taxation to be imposed is much less all-embracing than in the Madras Act of 1920

394 It will be observed from this brief sketch of the growth of local self-government in India that, as in the case of the relations between the Government of India and the provinces, so at every stage from the Provincial Government down to the village panchayats, the process has been, not that of a federation of smaller units into a larger unit to deal with common interests which they cannot deal with individually, but the much more difficult process of devolution of powers by the larger unit to the smaller ones In the case of the towns, local self-government began in the big cities, to be followed later by extension to the larger towns in the mufassal, and later to what were known as village unions or notified areas, that is to say, areas in which it was competent to the Local Government to bring portions of the municipal law into force by notification In rural areas the original unit was the District Board When it was found that that was unwieldy and had a tendency to divert its attention too much to the headquarters, some of its powers and funds were transferred to bodies representing portions of districts, known in some provinces as local and in others as taluk boards Even these were found too large to be of use to the villages, and during the last few years there has been a tendency for the revival of the village panchayat The process in Europe has been the exact reverse. The growth was from the parish or the *commune* to the union, from that to the county, and so upwards As a consequence, it is found that there are as many as 14 427 parishes in England and Wales, and 37,963 *communes* in France, each with an independent local body, that is to say, one local body to every 4 square miles in England, and to every 6 square miles in France In India there are 682 local boards, or one to 1,494 square miles, and, though village panchayats are slowly growing, the numbers that have been constituted under the Acts are still small, for instance, in Madras with its 52,198 villages there are 709 panchayats so far registered in the Presidency These are considerations that have a very important bearing on the question of

The process has been the reverse of that which has taken place in Europe

taxation, since unquestionably the facility for raising contributions for local purposes increases as the size of the unit of taxation decreases.

Difference in conditions in relation to the police.

395. Another important feature of the history of local self-government in India consists in the gradual severance of it from all connection with police functions. It has been seen that in Europe these functions form an important part of the local administration, and that in India they did so throughout the earlier stages. As local bodies grew in power, however, a tendency arose to relieve them of these functions, partly because of their lack of funds, and partly because of the policy of centralisation. Of late years, there has been a tendency to revert to the older policy as followed in Europe, and as late as 1921 there was appointed a committee in Calcutta to examine the question of the levy of a rate for police purposes in the city. Meanwhile, in rural areas, especially in the permanently-settled provinces, the tendency has been to revert to the older plan of making the village police a local charge. As will be seen from the remarks in the chapter on Capitation and Apportioned Taxes, this is a tendency which, in the opinion of the Committee, is in the right direction.

The taxes levied in India fall into four groups.

396. It is now proposed to examine in somewhat more detail the taxes levied by these various classes of local authorities. They may be grouped under the following heads:—

(1) Taxes on trade.
(2) Taxes on property.
(3) Taxes on persons.
(4) Fees and licenses.

Taxes on Trade.

Taxes on trade.

397. The main source of municipal taxation is a matter in respect of which the differences between the provinces on the north and west of India and those on the south and east are as great as those between France and England.

The alternatives are the indirect octroi and terminal taxes and the direct taxes on houses and persons. Out of 772 municipalities in all India, 48 in the United Provinces, 100 in the Punjab, 40 in the Central Provinces, 121 in the Bombay Presidency and 6 in the North-West Frontier Province have one of the indirect taxes as their principal source of revenue, while 81 municipalities in Madras, 114 in Bengal, 57 in Bihar and Orissa, and

56 in Burma place their main dependence upon direct taxes It is proposed to examine these sources of revenue in turn, taking the indirect taxes first

398 Octroi and its modification, the terminal tax, are very ancient and primitive taxes, which have been abolished in most advanced countries In the form in which they are levied in India they offend against all the canons of taxation They are uncertain in their incidence Their collection and the system of refunds which forms an essential feature of the octroi, puts the person paying the tax to a great amount of inconvenience Where they are imposed on the necessaries of life, as in India, they do not proportion the burden to the means of the payer, and the expense of collection and the facilities for fraud are disproportionately large With numerous bodies each independently taxing trade, it is impossible to know what are the burdens trade is really carrying, and quite impossible to ensure their being adjusted in any way fairly among different articles and goods The popularity of these taxes is due to the fact that their incidence is shifted and that it is very difficult to determine on which classes the burden ultimately falls The collection of the terminal tax through the railway agency has removed all the administrative difficulties inherent in a system of octroi, and there is a tendency among municipalities to resort to the tax whenever they are in financial difficulties, because the local authority can in this case transfer the odium of collection to the railway company The tax is also very defective from the educative point of view, since it does not encourage a sense of responsibility among the electors, who do not directly feel the burden of the tax Sir Josiah Stamp sums up the case as follows —

Octroi and terminal taxes

> "In my judgment, both theoretically and on the result of experience, no country can be progressive that relies to any extent upon octroi, which has nearly every vice"

399 The history of these taxes is one of many expressions of pious opinion, accompanied by little in the way of practical action They are the direct successors of the transit duties, the continuance of which was one of the scandals of earlier British rule in India, and the abolition of which by Lord Ellenborough freed the trade of the country from an intolerable burden As early as 1864, Sir Charles Trevelyan pointed out the danger that existed of the old transit duties being replaced by a similar evil

Declarations of the Government of India in regard to these taxes

on ginning mills and other places for the manufacture of cotton. This, in so far as it is a direct tax upon an industry which derives considerable services from the town, is a great improvement on the indirect duty. Again, in some places there has been substituted for the octroi a tax calculated upon the rental of the business premises of the persons who formerly paid it. In other towns, again, a system of composition has been introduced, converting the tax into something in the nature of a tax on retail sales.

The necessity for the protection of inter-provincial traffic.

402. In spite of these more favourable features, it seems to the Committee a circumstance to be regretted that the Government of India have to so large an extent abandoned their control of a matter which is of paramount importance to the trade of the country. It seems to them to be a function inherent in the Imperial Government, as it is by their constitutions in the Federal Governments of Australia and the United States of America, to protect inter-provincial traffic from obstruction by taxes imposed by subordinate authorities, whether these are provincial or local, and they would invite attention to the fact that, on a similar situation arising in Germany, the Imperial Government there prevented the continuance of any such obstruction by legislation prohibiting the imposition of local taxation on certain classes of articles.

The possible substitutes—a rate on property.

403. Subject to these general considerations, it seems desirable to consider whether it is not now possible for the municipalities which are chiefly dependent on taxation of this kind to replace it by other forms of taxation, or if that is out of the question, to modify it in such a way as to remove most of its objectionable features. The most obvious substitute is a rate on land and houses. It has been pointed out in a previous chapter that one item of property that pays less than any other towards the support of the State is land within town limits. Meanwhile, the rate on the houses or houses *plus* house-sites, which frequently exceeds 100 per cent in England, nowhere amounts to as much as 25 per cent in India.* The actual rates for some principal towns in different provinces are as shown below.

* It must be noted that the bases for calculating these percentages in England and India are different. If the rent of a house in England is 100 and the local rate is 75, the tenant pays 175; while in India the rent of the tenant includes the rate. Thus a rate of 20 per cent in India would be equivalent to a rate of 20 in 80 in England, i.e., 25 per cent. A rate of 100 in England would be equivalent to a rate of 50 in India. The figures are thus not quite comparable, especially when the rates are high.

With three exceptions, which are noted, these all include service taxes as well as the general rate—

Name of town	Per cent
Rangoon	23½
Patna	23¼
Calcutta	23
Howrah	20½
Darjeeling	20½
Madras City	18½
Bombay	18¼
Allahabad	18
Rajahmundry	17½
Vellore	16½
Guntur	15
Simla, Dharmasala, Dalhousie and Murree	12½*
Ahmednagar	9
Shillong	7½*
Poona	5*

* Excluding service taxes

Even these rates are frequently in actual practice less than they appear owing to the method of assessment and the time which is allowed to lapse between valuations There would thus appear to be considerable scope for an increase in the assessment of town property

Nor is a tax of this kind unknown in the provinces which place their reliance on octroi There are already 135 municipalities which have a house tax in Bombay, 37 in the Central Provinces, 32 in the United Provinces and 14 in the Punjab The Committee fully recognise the difficulties that arise in old towns where decaying families occupy houses of a size disproportionate to their incomes They recognise that there may be political difficulties in other places But they cannot help thinking that, if the house owning interests were less strongly represented on municipal bodies, the stress laid upon these difficulties would be much less than it is now, and the process of replacement of indirect by direct taxation would be correspondingly expedited

404 The case for the introduction of taxation on persons is not dissimilar A profession tax or something like it is in force in all the 81 municipalities in Madras, in 104 in Bengal, in 6 in the Punjab, in 15 in the Central Provinces and Berar and in 49 in the United Provinces The Committee observe that proposals have been made for the introduction of such a tax in certain of the mufassal municipalities in Bombay, but that taxation of this kind A profession tax

is still regarded with disfavour in the premier city of the Presidency.

Income from markets, etc.

405. As regards taxes which may be regarded as modifications of the octroi, the most striking case is that of the markets in Burma, in which province no less than 38 per cent of the municipal revenue is realised through the letting of stalls in municipal markets, coupled with the taxation of private markets. This process involves the levy of what is practically an indirect tax, but in a much less objectionable way than the octroi, since the tax is collected with a minimum of expense and trouble to everybody concerned; the prices are still governed by the competition of the shops outside the markets, and the regulation of the latter ensures that sales are conducted under sanitary conditions. Similar remarks apply to the case of slaughter-houses. Other provinces have not taken advantage of this source of revenue in the same way as Burma, though the municipalities in Madras realise a revenue of 6 or 7 lakhs a year from the two. In contrast to this is the refusal of the municipal authorities in Bombay city to realise the market value of the stalls in the Crawford market.

A tax on retail sales.

406. Another modification of the tax which has already been referred to is the system of composition. The Committee understand that this system has recently been adopted in Italy and tends to result ultimately in the conversion of the tax into a tax on sales. The idea of a sales tax is very old. It existed in various forms in the Middle Ages, and since the War has found a place in the taxation systems of France, Belgium, Italy, Germany and other countries on the continent of Europe, as well as in that of Canada. It was rejected in England mainly because it was found impossible in practice to separate the value of services from those of goods in cases in which the two were combined. It may be explained here that the retail sales tax is essentially different from a universal turnover tax, because it is imposed at one stage only, i.e., when goods pass from the retail seller to the consumer, and is unlike the turnover tax in that it is not cumulative in its effect. While there are objections to a new tax of this kind levied universally throughout the country, as a substitute for an octroi it has certain decided advantages. The substitution of this tax would solve automatically the difficulties about *entrepôt* trade, since no article which was not sold in the town would be liable to the tax. Its incidence would be fairer inasmuch as, being on an *ad valorem*

basis, its weight would be greater in the case of the more expensive articles consumed by the richer classes, manufacturers would be freed from taxation on the raw materials of their industry, collection would be less likely to be attended by fraud and harassment of the tax payer, and lastly no administrative control would be necessary to prevent it from developing into a transit duty

407 It is suggested that the method of collection might be as follows — Proposals for levy of such a tax

(1) The tax might be levied on the total turnover of the retail merchants in the town

(2) All persons selling goods by retail should be required to register, including manufacturers and wholesale dealers who sold direct to consumers inside the town

(3) The tax might be collected quarterly or half yearly

(4) In the case of hawkers, and possibly in that of the pettiest traders, a license fee would be levied, but no charge would be made on sales

Difficulties in connection with the assessment and collection of the tax would no doubt arise, especially at the outset, and some evasion, particularly in the case of small traders who keep no accounts, is to be expected If, however, the tax were wisely administered by a competent staff, these difficulties would gradually disappear

408 An objection taken to taxation of this kind in European countries has been that it must be levied on all commodities if its levy is not to involve the keeping of separate sets of books for taxable and non taxable articles, respectively, and that it is undesirable to levy it on necessaries This is an objection that applies only to a limited extent in India, especially if it is under consideration as a substitute for the octroi, for the reason that it has always been the policy to levy octroi on necessaries and that the existing schedules cover a very large range of commodities The substitution of a universal sales tax would not therefore make any material difference in this respect An objection considered

409 Finally, if in individual cases it is not found possible to adopt any of these alternatives, it seems desirable that certain general principles governing the levy of octroi Limitations that should be imposed if octroi or terminal taxes are retained

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or terminal taxes should be laid down, if not by legislation, at least by executive order. The principles which appear to be generally appropriate are the following:—

(1) The rates of taxation should be low in all cases, and especially so in the case of necessaries of life and articles that are subject to Imperial or Provincial taxation.

(2) In order to prevent the tax from developing into a transit duty, arrangements should be made for prompt refunds on exported goods, and for bonding goods intended for through transit.

(3) The staff should be properly paid and efficiently controlled by an official agency, with which the elected representatives should have no power to interfere.

(4) The terminal tax, which is an octroi without refunds, should be levied on all packages with reference only to weight and without reference to contents. The rates should be kept low and the Government of India, in the interests of inter-provincial traffic and the railways, should retain a full measure of control. In any case in which a terminal tax is substituted for an octroi, the tax should be fixed at such a rate that the total proceeds do not exceed the average revenue from octroi during the preceding three years.

(5) The tax should not be levied on goods imported and re-exported without break of bulk.

(6) Where it is thought legitimate to derive a municipal revenue from a single staple, e.g., from cotton ginning in a town, it is better to impose the tax direct on the output of the ginning mill.

(7) The levy of a tax on goods exported from a municipality should not be permitted, save in exceptional cases where it is already in existence.

(8) Goods not leaving a railway yard, or only leaving port premises for a railway, and merely transhipped at the yard or port premises, should not be subject to any duty whatever.

In addition to the adoption of these general principles it would appear desirable that there should be issued, for the guidance of municipalities which continue taxation in this form, a model set of rules with forms of schedule, which should be generally adopted and should not be departed from without good reason At the same time it seems desirable that the approval of the rates of tax should be kept in the hands of the Local Government, and should not be delegated, as in some provinces, to subordinate authorities whose policies might differ from one another

An amendment needed in the Scheduled Taxes Rules

410 In this connection the Committee would like to draw the attention of the Government to an anomaly in the Scheduled Taxes Rules Under the rules as they stand at present, a Local Government can, without the previous sanction of the Governor General, authorise by legislation any local body to impose either an octroi or "a terminal tax on goods imported into or exported from a local area, save where such tax is first imposed in a local area in which an octroi was not levied on or before the 6th July 1917" In other words, while the powers of local authorities and Local Governments as regards the levy of a terminal tax are restricted, the more objectionable octroi can be levied without the sanction of the Government of India

The recommendations made by the Committee involve an amendment of the Scheduled Taxes Rules They would suggest that the law governing the levy of the octroi and the terminal tax should be amended so as to prohibit the introduction of the octroi in any municipality in which it does not now exist and to empower the Government of India to issue rules governing the levy of the terminal tax

Tolls and ferry charges

411 Tolls for the maintenance of roads were formerly common in many countries, both in Europe and elsewhere In England there were in 1838 more than 22,000 miles of turnpike road under some 11,000 turnpike trusts They had a debt of £7 millions and their annual revenue was £1½ millions The system undoubtedly resulted in grave abuse, but as late as 1870, there were still in existence over 900 turnpike trusts, and it was not until 1895 that the last of them was abolished The abolition of these trusts, it may be noted, was only rendered possible by liberal grants-in aid from the Imperial Exchequer

412 In India, tolls and [illegible] important [illegible] source of municipal as well as of District Board revenue [illegible]

the Madras Presidency, but substantial sums are also realised from this source in other provinces. The levies of this kind may be classified under four groups: (a) where they are supplementary to an octroi or terminal tax; (b) where they are part of a scheme of taxation of vehicles in municipalities; (c) where they are the sole means of charging for the services rendered to the roads; and (d) where they are a tax on transit.

Terminal tolls.

413. Terminal tolls are levied by certain municipalities in the United Provinces to counterbalance the terminal tax on goods arriving by rail. They differ from the octroi in three ways, viz.: (1) no refunds are allowed as in the case of the octroi; (2) there are no *ad valorem* rates; (3) except in towns in which terminal rates have been imposed on articles in respect of which evasion of the terminal tax was commonly practised, the toll is assessed on the vehicle and not on the weight of each consignment. It is obvious that, once the rates of terminal tax are raised above a certain level, it becomes necessary in order to prevent evasion to supplement it by a toll of this sort.

Municipal tolls.

414. Tolls are levied by municipalities in several provinces. There is usually a municipal tax on vehicles, the payment of which exempts them from the toll, and the levy of the latter is restricted to carts which are not registered in the town. They are therefore part of a general scheme for the taxation of vehicles and are justified as such. The following statement shows the income from municipal tolls in the several provinces:—

Province.	1921-22.	1922-23.	1923-24.
	RS.	RS.	RS.
Madras City	51,821	68,010	62,000
Madras Presidency	10,10,000	13,56,000	13,45,524
Bombay Presidency	3,33,663	3,41,699	3,56,242
Bengal	90,220	86,978	91,045
United Provinces—			
Tolls on roads and ferries ..	2,95,469	3,35,468	3,68,468
Terminal tolls	4,61,002	5,85,561	7,42,383
Punjab	16,148	20,373	20,230
Burma	3,07,881	3,73,072	3,96,564
Bihar and Orissa	72,110	72,048	73,146
Central Provinces	52,613	44,237	44,138
Assam	25,291	26,021	34,047

Road tolls.

415. Road tolls are levied by all the local boards in the Madras Presidency at rates which are subject to a maximum fixed by the Government under the Act. The local boards also receive a share of the proceeds of the

municipal tolls, the apportionment being fixed by agreement, or in failure of agreement, by the Government. In Bombay, they are levied on main roads by the Government and on minor roads by local bodies, but there are no arrangements corresponding to those in Madras for the distribution of the proceeds between municipalities and local boards. In the United Provinces, they are levied under the Northern India Ferries Act, while in the other provinces they are either not levied at all or levied only for special purposes such as, in the case of roadways and footways, the building of a bridge towards the construction of which the boards have spent or are about to spend large sums of money. The income of local boards from this source in the several provinces is shown in the following statement :—

Province.	1921-22	1922-23.	1923-24.
	RS.	RS.	RS.
Madras	21,67,000	25,24 000	29,14,000
Bombay	2,53,010	3,33,986	4,90,066
Bengal	4,53,509	4,83,084	4,52,495
United Provinces	4,52,369	4,64,287	5,04,000
Punjab	1,445	1,242	1,800
Bihar and Orissa	2,68,226	2,48,431	3,69,467
Central Provinces	85,142	87,113	79,978
Assam	1,13,022	1,16,142	1,32,910

It will be observed that the income of local boards in the Madras Presidency from this source is very large. This is necessitated by the fact that in Madras alone the great bulk of the roads is maintained by the local bodies, whose resources are limited and quite inadequate for meeting otherwise the cost of the services entrusted to them. During recent years, however, liberal contributions have been given by the Government, who have definitely undertaken the financial responsibility for the maintenance of certain trunk roads.

416. In the case of ferries, the right to provide boats is usually sold by the Government or the local board, the fees for their use being fixed. Separate figures for receipts on this account are not available in all cases, but the collections on account of ferries alone amount to over 3 lakhs in Madras and those on account of canals and ferries to 2 lakhs in the Punjab and 6 in Burma. The Governments and the local boards generally take little part in the matter beyond collecting the revenue, and cases are not unknown in which the service is neither Ferry charges.

adequate nor safe. There is instead a tendency to make this a pure tax on transit, and theoretically there is nothing to be said for the tax. Practically, it has the advantage that it is difficult to evade. If it is a function of the local bodies to provide means of communication, it is equally their function to provide means of transit across rivers that intersect the roads, and the least that can be done is to earmark the taxes levied at such crossings for expenditure on the improvement of the means of doing so.

Conclusions as regards the revenue from tolls.

417. It will thus be observed that the tolls which supplement a consumption tax are inevitable so long as it continues, while the tolls which are part of a general scheme for the taxation of vehicles are justified in municipalities. In the case of local boards, the tax is more objectionable and is undoubtedly an impediment to through traffic. The question of the abolition of these tolls on rural roads has been considered in more than one province. The Government of Bombay decided to abolish them on provincial roads in 1908, and in 1914 offered to district boards compensation for the loss of toll revenue if they would abolish tolls on local fund roads. In the following year, however, a committee appointed to examine the whole question of local taxation recommended the retention of the system. Later, the financial stringency resulting from the War rendered it impossible to carry out the former policy, and in 1922-23 some tolls were reintroduced even on provincial roads. In Madras, the substitution of other taxation for the large revenue derived from tolls has been several times considered. The only general plans that have found any favour are an addition to the cess and a vehicle tax. The first of these is open to the objection that it would fall unduly heavily on the ryots who live in places remote from the main roads and use only village roads, on which a very small proportion of the local taxation is spent, while landless persons who live by the carrying trade would go free. The same objection would apply in a minor degree to the case of a general wheel tax, which it is impossible to graduate with reference to the use made of the road except by the device of a toll.

The possibility of substituting a provincial tax in the case of motor vehicles.

418. There is one case, however, and one which is responsible for most of the complaints against tolls, in which such a substitute is possible, and that is the case of the motor vehicles. These are used only on metalled roads,

and it would be perfectly practicable to levy, as in England, a provincial tax, and to make over the proceeds to a road board for distribution to the local bodies responsible for the maintenance of the roads Such a tax has in fact been instituted, though for another purpose, in the United Provinces, where it has since lapsed, and in the Punjab, where it is still in force, and it is recommended as a generally suitable method of securing the money that is so urgently needed for the upkeep of the roads, at the same time saving the motorist from the annoyance of the toll gate It would of course not do so, however, in municipalities where the toll was the supplement of a vehicle tax

419 Should any such general scheme of taxation of motor vehicles be developed it is desirable that there should be considered in connection with it the possibility of a reduction of the import duty It has been stated in a previous chapter that the tax at 30 per cent has justified itself inasmuch as it has brought in a large revenue without decreasing the number of vehicles imported At the same time, it must be remembered that India is very inadequately supplied with railway facilities, and the introduction of motor transport services in many provinces has brought the rural classes into closer touch with the cities Motor lorries are also displacing bullock carts where there are good roads It is difficult to exaggerate the political and economic advantages of rapid means of transport in India, and the development of motor transport services should in the opinion of the Committee be encouraged by the Government If the two propositions are accepted, first that an increase in motor transport would be for the benefit of the country, and second that motor vehicles, especially those of the heavier types, are items in respect of which local authorities are entitled to take a fair share of the taxation then it would appear that sooner or later a reduction of the import duties is desirable *If this is instituted, a reduction of the import duty should be considered*

Taxes on Property

420 The next most important group of local taxes is comprised of taxes on property, which fall into four principal divisions— *Taxes on property can be divided into four classes*

(1) Taxes on houses or houses and their sites,
(2) cesses on lands, generally with reference to their use for agricultural purposes,

(3) taxes on unearned increment in connection with betterment schemes; and

(4) taxes in the shape of a stamp duty on transfers of property.

Taxes on houses.

421. A general tax, which was also in a sense a house tax, was levied under the Mahrattas under the name of *moturpha*, and a similar general tax is still levied by the District Board of Coorg, but this is a solitary survival in British India. Elsewhere the tax is levied only in villages in which panchayats have been constituted, in unions or notified areas, and in municipalities.

In villages.

422. The house taxes levied in villages by panchayats are of comparatively recent origin, dating from the Madras and Bombay Village Panchayats Acts of 1920. The basis of assessment in both provinces is the capital value of the house, but in practice, at any rate in the Madras Presidency, many of the panchayats levy the tax at rates varying with the nature of the structure or the linear dimensions of the houses. Out of 709 panchayats registered under the Act, 75 levy a tax on houses.

House tax in unions and notified areas.

423. A house tax assessed either on the capital value or on the annual value is levied in all the unions in the Madras Presidency, and there are provisions in the Municipal Acts of the United Provinces, the Central Provinces, Bihar and Orissa, Burma, the Punjab and Assam that it may be levied in any notified area, but the Committee have no information as to the extent to which this provision has been utilised in practice. The total income derived by all the unions in the Madras Presidency from this source amounted in 1922-23 to Rs. 12.1 lakhs.

Property tax in municipalities.

424. The practice as regards the levy of the property tax in municipalities varies in the different provinces. There are four principal classes of property which are subject to taxation in municipal areas—

(1) Agricultural land.

(2) Vacant non-agricultural land which is not built upon and is not attached to any house.

(3) Houses with the land attached to them.

(4) Certain special classes of buildings, such as factories and Government and railway property.

Agricultural land.

425. Agricultural land within municipal limits is in almost all the provinces subject to municipal taxation in addition to the land revenue payable to the Provincial

Government There is, however, a specific provision in Madras Bombay, the United Provinces Bihar and Orissa and Assam for the exemption from the water and drainage tax of agricultural land exclusively used for agricultural purposes

426 Non agricultural land, which is not built upon and which is not attached to any house, is subject to taxation in most provinces only if an income is derived from it but in Madras there is a provision under which a special tax on such land can be levied at a specified rate per unit of 80 square yards, whether an income is derived from it or not It is understood that the Government of Bombay are contemplating an amendment of the law with a view to enabling local bodies to tax undeveloped lands which yield no income Vacant land

427 In Madras Bombay Bengal Bihar and Orissa and Assam, lands and buildings on them are assessed together They may be assessed on capital value but annual value is the usual basis In Burma the tax may be assessed in five ways— Taxes on land and buildings

(a) On buildings and lands, based on their annual value,
(b) on lands covered by buildings not exceeding 3 pies per square foot per annum for one storeyed buildings and 4 pies per square foot per annum for buildings of more than one storey,
(c) on lands not covered by buildings, at a rate not exceeding Rs 10 per acre per annum,
(d) on buildings, according to the length of street frontage, subject to certain maximum rates,
(e) at a percentage of the *thathameda* assessed on any family or household

A large majority of the municipalities in Burma have adopted the first system

In certain hill municipalities in the Punjab also street frontage is adopted as the basis of assessment

428 The Municipal Acts of some of the provinces contain a clause excluding machinery from the valuation of property for the purpose of ascertaining the rental value The Acts in force in the Punjab Bihar and Orissa and Bombay do not contain a specific provision to this effect but in practice even in these provinces machinery in mills and factories is not taken into consideration in estimating the rental value of such buildings In Rangoon machinery Special classes of property

is not rated, but a percentage of its value is added to the annual value of the land and buildings comprised in the mill or the factory. In other municipalities in Burma, machinery is taxed for municipal purposes; for instance, rice mills are, or were, until comparatively recently, assessed according to the number and size of the hullers and cones in use. This follows to some extent the English practice, but in England a distinction is drawn between machinery which is detachable and that which is a fixture and would naturally pass with the property. It is only machinery of the latter class that is taken into consideration in estimating the annual value. It would seem desirable that the principle followed in England should be adopted universally in India.

Rate of tax.

429. In all the provinces except Madras, the Central Provinces and Bombay, the rate of property tax is subject to a maximum prescribed by statute. The following are the maxima fixed in different provinces:—

Bengal	$7\frac{1}{2}$ per cent and 10 per cent in Howrah, Dacca and Darjeeling.
Bihar and Orissa	$7\frac{1}{2}$ per cent and 10 per cent in Patna.
Punjab	$12\frac{1}{2}$ per cent
Burma	10 per cent.

From whom collected.

430. In Madras, the Central Provinces, Assam, Bengal and the Punjab the house tax is collected from the owners of the houses, while in the other provinces it may be collected either from the owner or from the occupier. In Bihar the tax on holdings is paid by the owners, while the latrine tax is paid by the person in actual occupation of the holding.

Property tax in capital cities.

431. The principal tax on land and buildings in capital cities is the general property tax or house tax which is levied on much the same lines as in the mufassal municipalities, with the exception that, in the case of the property of Port Trusts, the tax is fixed at a lump sum or is levied at a definite percentage of the gross earnings. In Calcutta and Rangoon, the maximum rate at which the tax may be levied has been limited by statute to 23 per cent for all purposes and 12 per cent for general purposes, respectively.

Machinery of assessment.

432. The assessment of the house tax in most of the municipalities is made either by—

(1) members of the local body, or

(2) a revenue officer specially appointed for the purpose, or

(3) permanent officials attached to the municipality

The normal procedure in mufassal municipalities is for assessment to be made by the chairman or a committee of councillors In the earlier days of municipal development, it was a not uncommon practice for a Government officer who was skilled in such work to make the initial assessments or to revise them when they were out of date, but this practice appears to have fallen into abeyance, and at present the work is all done by councillors, subject to the provision in Bombay that the assessment list should be authenticated by the municipal commissioner of the district, where such an officer exists In the capital cities, the assessment is generally entrusted to well-paid officials who are appointed by the Government or whose services are lent to the municipality for a term of years

433 The procedure as regards appeals against assessments to the house tax varies with the different provinces In the cities of Bombay and Calcutta, the assessments as made are published, and an objection may be lodged before the Commissioner or some other executive officer Persons dissatisfied with the order of the Commissioner may appeal to the Court of Small Causes In the city of Rangoon appeals against assessments lie in the first instance to the Chief Judge of the Small Cause Court and a second appeal to the Chief Court of Lower Burma is also provided for where they relate to the liability to assessment or the basis or principle of assessment In Madras an appeal lies first to the standing committee, against whose order a further appeal may be made to the Court of Small Causes The procedure in Madras has had undesirable results It is stated that a common electioneering practice there is for a candidate to distribute to voters printed forms of appeal against the assessments to the municipal house tax and to promise remission, if elected, and that such practices have a very serious effect on the revenue. It would seem desirable that the appellate procedure in force in Calcutta should be adopted Appeals

There is even greater divergence in the practice as regards appeals in the mufassal municipalities In Madras, appeals are heard by the whole municipal council, whose decision is final In Bombay, objections are heard by the chief executive officer or by a committee of the council or by any Government officer to whom, with the permission of the Commissioner of the division, may be

delegated the powers and functions of the managing committee. In the United Provinces, the Central Provinces and the Punjab, the Deputy Commissioner or the Commissioner or other officer empowered by the Government is the appellate authority. In Bengal the appellate authority is a committee of not less than three councillors, whose decision is final. As an instance of the results of this system may be quoted the statement of the Government of Bengal that "it is difficult for commissioners dependent on the suffrages of the rate-payers to refuse relief to appellants".

The machinery for collection.

434. The outstanding feature of this tax in India is the inefficiency of the machinery of collection and assessment. Several witnesses have commented very strongly on the defective administration, and the Local Governments themselves in their annual reviews of the working of municipalities have commented severely on the heavy arrears of revenue in many of the towns.

Madras.

In the review of the working of district municipalities in Madras for the year 1920-21, it is stated "that the year's record is disfigured by a very serious deterioration in the collection of revenue." Some of the municipalities collected less than 60 per cent of the demand. In the review for 1921-22 for the same Presidency, the Government again remarked that the year's record showed "a serious deterioration in the collection of revenue". Again it is recorded in the review for 1922-23 that there was no improvement in the collection of the revenue.

Bombay.

In the resolution issued by the Bombay Government on municipalities in 1920-21, the following passage occurs :—

"The arrears are principally due to—

(1) lack of interest on the part of councillors, who are often among the last to pay up;

(2) lack of courage on the part of the municipal staff; and

(3) failure to use coercive processes and impose penalties for late payment.

"The fault is really with the president and the councillors, as it is impossible to expect the staff to be firm in making demands, when the councillors will not sanction penalties, and are themselves slow in paying."

The inefficiency of the collection staff was again the subject of severe comment in the following year by the

Government, who remarked that "unless the collection staff is overhauled and fresh energy imparted into it, the finances of municipalities will end in a hopeless muddle."

These comments have apparently had no effect. for in the report of the audit officer for 1924-25 it is stated that "the accumulation of arrears of taxes is a chronic complaint." On this report the Government of Bombay remark that "the extraordinarily large number of cases of embezzlement and misappropriation brought to light by the Examiner shows a lamentable lack of supervision on the part of municipal office bearers."[2]

Bengal.

The state of affairs as regards collection is equally bad in Bengal. According to the annual audit report on the financial administration of municipalities and district boards for 1923-24, the arrears amounted to 56 per cent in Nawabganj, 42 per cent in Katwa, 40 per cent in Satkhira, 37 per cent in Mymensingh, 36 per cent in Pabna, 35 per cent in Moheshpur and Dacca, 32 per cent in Tollyganj, 29 per cent in Sirajganj and Bally, 26 per cent in Howrah, above 20 per cent in 17 municipalities, above 15 per cent in 22 and above 10 per cent in 27. These arrears in some cases extended as far back as 1913-14. In a large number of cases municipal commissioners themselves were among the defaulters. The seriousness of the situation is indicated by the fact that in Dacca "a propaganda committee has been started to persuade the tax-payers to pay up their just dues."* It is stated that, according to the Chairman of the Dacca Municipality, taxes to the extent of Rs. 4 lakhs are in arrears and that if within two or three months the money is not collected, it may be necessary to hand over the municipality to the Government.

Bihar and Orissa

The resolution issued by the Bihar Government on the working of municipalities in Bihar and Orissa during 1923-24 deals at great length with the inefficiency of the municipal administration. One municipality, it is stated, "was brought to the verge of bankruptcy and the administration was in the highest degree corrupt and inefficient. Remission of taxes was sanctioned by the chairman without enquiry and without the consent of the municipal commissioners and under circumstances of a suspicious character". Referring to another municipality,

* *Pioneer*, 20th November 1925

the Government remark that the administration has gone from bad to worse and the "record for the year under report is one of frequent embezzlement, inefficient collection of taxes and party conflicts amongst the municipal commissioners."

The only remedy for this serious state of affairs seems to be provincial control of the machinery of assessment and collection. The question will be considered in the chapter on Machinery of Taxation.

Surcharges on land revenue or rent, which are of very long standing, are now confined to local purposes.

435. The practice of levying surcharges on land revenue or rent is of very long standing in India, and such charges, levied for a great variety of purposes, still form a considerable part of the tenant's burden in many places where land is held under landlords. The abolition of illegal exactions of this kind was one of the purposes of the permanent settlement, which was followed early in the eighteenth century by the regularisation of such of the cesses as it was intended to continue. These were at first levied principally for local purposes, but in the period 1871 to 1905 there were added considerable cesses for imperial purposes, chiefly the famine fund, in addition to which in some provinces there were added cesses for provincial purposes, chiefly payment of village officers. All the cesses that were levied for other than local purposes were wiped away by Sir Edward Baker's reforms of 1904-05 and 1905-06.

In some cases, however, the effect of these measures was not to reduce the amount of the cesses levied, but to transfer the funds from provincial purposes to local bodies, the Provincial Governments being compensated by the Imperial treasury. Meanwhile, in one province at least, there was adopted a policy of adding new cesses for specific local purposes. In Madras, a special cess for the construction of local railways was levied in several districts from 1884 to 1920. Under recent legislation, the permission given to local boards to levy this has been replaced by power to increase the cess for general purposes, but under another Act power has been given to levy a specially earmarked cess in aid of the expansion of elementary education.

The varying bases of assessment.

436. The basis of the assessment varies generally with the system of land revenue. In the ryotwari areas of Madras, Bombay and Burma, the temporarily-settled areas of Assam and throughout the Central Provinces and Berar,

the land revenue is taken as the basis In the temporarily-settled areas of the United Provinces and the Punjab the basis is the annual value, which is defined as twice the land revenue In the permanently-settled estates in Madras the basis is the rent actually payable to the landlord or the intermediate landholder In those of Bengal and Bihar and Orissa the cess is based on the rental value as estimated by the Collector less a deduction to be calculated at one-half of the rate for every rupee of the revenue paid In those in Assam the basis is acreage, the tax being fixed at $6\frac{1}{4}$ per cent on an assumed value of Rs 2 an acre In those in the United Provinces acreage is again the basis, the tax being fixed in this case directly at Re 0-2-6 per acre under cultivation There is a separate cess in this latter province known as the road cess, which is applicable to the permanently settled estates alone and in their case is assessed at one per cent of the land revenue

437 As regards the rates, the practice is for the provincial legislatures to impose maxima within which the local bodies may fix rates at their discretion The Committee's information is not complete as to the cases in which the rates are levied at the maximum or at something short of it They gather, however, that in the majority of districts the maximum is levied in Madras, Bengal, the Punjab, Burma and Bihar and Orissa, and the minimum in the Central Provinces The following table exhibits the rates, together with such bases of comparison between provinces as are available to the Committee — The rates levied

Province (1)	Name of cess (2)	Basis of assessment (3)	Rate (4)	Total collections, 1922-23 (5)	Total land revenue, 1922-23 (6)	Percentage of column (5) to column (6) (7)
				LAKHS OF RUPEES	LAKHS OF RUPEES	
Madras	(i) Land cess	Ryotwari areas, land revenue	6¼ per cent (maximum)	79.16	719.[illegible]	*11.[illegible]
		Permanently settled estates, rent payable to the landlord by tenants	6¼ per cent (maximum)			
	(ii) Education cess	Land cess	2½ per cent (maximum)	5.25	..	—

* The maximum rate is levied by most of the district boards. The [illegible] permanently settled estates is responsible for the fact that the figure in column [illegible] per cent of the land revenue

Province. (1)	Name of cess. (2)	Basis of assessment. (3)	Rate. (4)	Total collections, 1922–23. (5)	Total land revenue, 1922–23. (6)	Percentage of column (5) to column (6). (7)
				LAKHS OF RUPEES.	LAKHS OF RUPEES.	
Bombay ..	Local Fund cess.	Land revenue ..	6¼ per cent (minimum). 12½ per cent (maximum).	35·46	615·96	5·76
Bengal ..	Road and Public Works cess.	Rental value ..	6¼ per cent (maximum), subject to a deduction calculated at half the rate for every rupee of land revenue paid.	72·03	288·32	24·98
United Provinces.	(i) Local rate ..	(a) In temporarily-settled areas, annual value of land (defined as twice the land revenue).	6½ per cent (maximum).	71·85	691·46	10·39
		(b) In permanently-settled areas, area under cultivation.	2 annas 6 pies per acre (maximum).			
	(ii) Road cess.	In permanently-settled estates, land revenue.	1 per cent.			
Punjab ..	Local rate ..	Annual value of land (defined as twice the land revenue).	5⅕ per cent (minimum). 6¼ per cent (maximum).	46·15	433·26	10·65
Burma ..	Land cess ..	Land revenue ..	10 per cent.	*28·34	*299·53	9·46
Bihar and Orissa.	Road and Public Works cess.	Rental value	6¼ per cent (maximum), subject to a deduction calculated at half the rate for every rupee of land revenue paid.	75·55	154·30	48·96
Central Provinces.	Land cess ..	Land revenue ..	6¼ per cent (minimum), 12½ per cent (maximum)	14·85	241·86	6·14
Assam ..	Local rate ..	In temporarily-settled areas, land revenue.	6¼ per cent	8·94	80·66	11·08
		In permanently settled areas, annual value assumed to be Rs. 2 per acre.				

* Figures for 1923-24.

438 There is further variation between provinces as regards the person who pays the cess In ryotwari areas it is levied from the landholder, who may or may not shift it when subletting his land. In the Central Provinces the *malguzar* is liable to pay the cess in a village in which the proprietary title has been conferred under the Waste Land Rules of 1865. In an unalienated village the cess is payable by the occupants in the case of alienated plots by the holders thereof. **The persons who pay.**

In the United Provinces, the cess is payable by the landlords, but every tenant is liable to pay to his landlord such number of pies per rupee of his rent or of the rental value of the land held by him as the Local Government may prescribe In the Punjab, the landholder is liable for the local rate When the rate is payable by a landholder in respect of lands held by a tenant with a right of occupancy holding at a favourable rent, the landholder may realise from the tenant a share of the rate

In the permanently-settled areas in Madras, the cess is collected from the landlord, who is empowered to recover one-half from his tenant In Bengal the landlord pays but is entitled to recover from his tenants the entire amount less an amount calculated at half the rate for every rupee of revenue paid by him. The cultivating ryot is liable to pay to the person to whom his rent is payable one half of the cess

439 The commentary on this tax will in some respects follow from that on the land revenue. Like the land revenue it is certain in so far as regards the amount that each individual has to pay, and not inconvenient as regards the time and manner of payment It is economical to the local boards, but its assessment adds to the cost of the general administration, especially in the permanently-settled areas of Bengal, Bihar and Orissa and the United Provinces, where it involves special processes. Being at a flat rate, it is not proportioned to ability to pay, nor can it be regarded as in any sense equally proportioned to the taxable capacity of the lands on which it is imposed. Subject to this criticism however, as a tax *in rem* applied for the benefit of the property which profits by the activities of the local boards, it is a tax of a type that is recognised as appropriate all the world over The chief point in which it differs from similar taxes elsewhere is in the imposition of a maximum rate, which in some cases limits the rate on agricultural land to something **Criticisms and recommendations**

less than 2 per cent of the annual value. The reason underlying this limitation was no doubt partly a fear on the part of Local Governments of encroachment on a provincial field of taxation, partly a fear on the part of local legislatures of adding to the burden of the cultivator. Recommendations have been made above for a standardisation of the rates of land revenue at a comparatively low rate, while the proportion borne by the land revenue to the total taxation has fallen from over 50 to nearly 20 per cent. In these circumstances the obstacles to an increase in the local rates disappears and it is recommended that, if the maxima be not altogether removed, at least they be raised to $6\frac{1}{4}$ per cent of the annual value, which is the rate now in force in Bengal, Bihar and Orissa.

Taxes on unearned increment.

440. Taxes on unearned increment are levied under the Bombay Town Planning Act of 1915, the Madras Town Planning Act of 1920 and the Rangoon Development Trust Act of 1920. Under the Bombay Act, the levy is subject to a maximum of 50 per cent of the increment, which is deemed to be the amount by which the market value of a plot included in the final scheme, estimated on the assumption that the scheme has been completed, would exceed the market value of the same plot estimated without reference to improvements contemplated in the scheme. In Madras, when the value of any property is increased as a result of a town-planning scheme, the municipal council is empowered to recover from the owner of such property an annual betterment contribution for a term of years at a uniform percentage (not exceeding 10 per cent) of the increase in value. The aggregate amount of the contribution so recovered is not to exceed one-half of the maximum increase in value. Under the Rangoon Development Trust Act, the cost of a development scheme is recovered wholly or in part by a contribution to be levied by the board on each plot included in the final scheme calculated in proportion to the increment which is estimated to accrue in respect of such plot. The contribution on account of land privately owned, however, is subject to a maximum of 75 per cent of the increment estimated to accrue.

Taxes on transfers of property.

441. In the case of land which has not been built upon, the problem of determining the unimproved value due to a scheme of town extension or the execution of any work is comparatively simple. The administrative difficulties of applying this tax to old towns have, however,

been found to be almost insuperable in India An attempt was made in 1919 to introduce such a tax in the City of Madras, but owing to the complexity of the problem, a tax on transfers of property was substituted A similar tax is also levied in Calcutta and Rangoon The rate of duty is 2 per cent of the value of the property, and it is collected in the shape of a stamp duty It will be observed that the duty is levied even when the price of property decreases In other words, it is a pure tax on capital value

442 A brief reference may here be made to another class of taxes, namely, special assessments, which are a peculiarly American development, though they are also found in a few German cities "They are compulsory contributions assessed in proportion to the special benefits derived by owners of property on account of specific improvements undertaken by the State or local authorities in the public interests"* They are essentially taxes on unearned increment, although the term 'unearned' is applied in a more restricted sense than in the case of the taxes on unimproved value imposed in Prussia and some of the British Colonies They apply to all sorts of improvements, such as grading, paving, sprinkling with water, illuminating with gas, construction of drains and sewers, and development of public parks and squares These taxes would seem to be particularly suited to the peculiar conditions of India, under which a single local authority has to operate over an area extending sometimes to several thousand square miles The Committee would suggest that, in the case of works executed by local authorities for the benefit primarily of a specific area, as, for instance, a village road connecting particular villages with the main road, the local authority concerned should be in a position to recover the whole or a portion of the cost in the shape of an annual cess imposed for a limited period on land in that area The adoption of this principle would be of great assistance in the development of the rural tracts, since a tax of this nature is more acceptable to the villagers than a rate imposed over the whole area under the jurisdiction of the local authority At the same time, it would have a most desirable educative value in enforcing the lesson of direct responsibility for schemes of local improvement It would also be possible for the local authority to impose these temporary taxes during prosperous seasons and so to make the burden less felt Special assessments

* Seligman Essays in Taxation, page 414

TAXES ON PERSONS.

The taxes on persons fall into six categories.

443. The principal taxes on persons now levied by local bodies are the following:—

(1) A tax on circumstances and property in the United Provinces, the Central Provinces, Bengal, and Bihar and Orissa.

(2) A tax on professions, trades, and callings in Calcutta, Madras and the Punjab, and as an alternative to the tax on circumstances and property in the United Provinces and the Central Provinces.

(3) A tax on companies in Madras.

(4) A tax on pilgrims in Madras, Bombay, the United Provinces, the Central Provinces and Bihar and Orissa.

(5) A terminal tax on passengers in Calcutta and Rangoon.

(6) A tax on menials and domestic servants in certain municipalities in the Punjab, Bombay and Madras.

Tax on circumstances and property.

444. The tax on circumstances and property is levied in many cases as an alternative to a tax on lands and buildings, chiefly in municipal areas. In 1922-23 it yielded in these areas 4.49 lakhs in Bengal, 1.99 lakhs in Bihar and Orissa, .35 lakh in Assam, and 4.24 lakhs in the United Provinces. In the latter province, it has also been introduced in rural areas as a tax on incomes other than those from agriculture and yields about 7 lakhs a year. The tax is generally assessed by an assessment committee composed of members of the local body or the inhabitants of the local area under its jurisdiction. Persons who cannot pay a minimum sum, generally 1 anna a month, are exempt, and the maximum payment is limited generally to Rs. 12 a year. In the Central Provinces, the sum required is first determined and the tax is apportioned. Subject to these restrictions, the tax is assessed, partly on taxable capacity and partly on the benefit principle, that is to say, with reference to what is known of the incomes of the tax-payers, their social position, the sizes of their families, the extent of their property within the local area and the benefits they derive from the activities of the local body. The equity of the assessments so made is much questioned. In the Bill to revise the municipal law in Bengal, which has recently been introduced, provision is made for abolishing this tax and replacing it by separate taxes on holdings and trades and professions on the ground that it is difficult to assess and gives rise to widespread complaints

of unfair incidence In the United Provinces the tax is universally disliked and most municipal boards are anxious to abolish it In the report on Local Administration for the province for 1923 24, it is stated that the unpopularity of the tax is due "to its inelasticity and the lack of a just and equitable system of assessment" The inequity, it is asserted, generally takes the form of favouring the influential and placing too heavy a burden on the poor

445 A tax on professions and trades has been familiar in India from very early times It was levied under the British Government between the years 1867 and 1886 under the various License Acts, which for a time took the place of the income tax Since 1886, it has been levied principally in municipalities, but quite recently it has been introduced into local board areas also Its yield in municipal areas in 1922 23 amounted to Rs 10 29 lakhs in Madras, Rs 12 21 lakhs in Bengal and Rs 1 30 lakhs in the United Provinces

Tax on professions and trades

As levied in Madras, this tax is not essentially different from an income tax In the Madras city, all persons other than shopkeepers and a few others, with incomes of less than Rs 100 per month are exempt For purposes of assessment the people liable to the tax are divided into classes according to their income, and the tax is levied subject to a maximum fixed by the Government in the Act The rates are comparatively high for India as will be seen from the following table —

	Monthly income	Rate half yearly	
		Maximum	Minimum
		RS	RS
Class I	Rs 5 000 or upwards	500	350
Class II	Rs 3 000 or upwards, but less than Rs 5 000	300	210
Class III	Rs 2 000 or upwards but less than Rs 3,000	200	140
Class IV	Rs 1 000 or upwards, but less than Rs 2 000	90	60
Class V	Rs 750 or upwards but less than Rs 1,000	45	30
Class VI	Rs 500 or upwards, but less than Rs 750	30	20
Class VII	Rs 200 or upwards but less than Rs 500	12	8
Class VIII	Rs 100 or upwards but less than Rs 200	6	4
Class IX	All hotel keepers lodging boarding eating and refreshment house keepers and shopkeepers not assessed under any of the previous classes.	1	½

In Calcutta, the tax is practically a license fee on professions. Everyone carrying on a profession or trade, from a barrister to a hawker, is compelled to take out a license, the license fee in the first case being Rs. 50, in the latter Re. 1.

The tax is levied in 49 municipalities in the United Provinces, but the total income in 1923-24 was only Rs. 1.34 lakhs.

In Bombay, the Punjab and the Central Provinces, it is hardly levied at all.

The tax has also been introduced recently in rural areas in Madras and the Punjab. In the former case, 59 taluk boards which levied the tax in 1923-24 derived a total income of Rs. 1.24 lakhs, the income exceeding Rs. 5,000 only in the case of seven taluk boards. The highest amount realised by any one board was Rs. 10,500. This was exclusive of the tax levied in unions. In the Punjab, the tax was levied under the name of the *haisiyat* by 22 district boards, the rates ranging from Re. 1 to Rs 50, and yielded a total sum of Rs. 1.53 lakhs. In both these cases, considerable administrative difficulties were encountered, which were greater in Madras than in the Punjab in proportion as the divorce of local administration from the general administrative staff was more complete. In Madras, several taluk boards have decided to abandon the tax, while in the Punjab a scheme is in contemplation for employing pensioned officers for its assessment and collection. As the Committee have already indicated, the root of these troubles lies in the fact that in India each local body operates over too large an area. When the tax is levied by a panchayat for its own purposes, these difficulties are not encountered. On the other hand, there would appear from the report of the Inspector-General of Panchayats in Madras to be a tendency for these bodies to trench on the sphere of imperial and provincial taxation. So long as the tax continues to be a source of revenue of the larger bodies, the remedy for the difficulties that have been referred to seems to lie in entrusting the assessment and collection to the general administrative staff of the districts.

The introduction of the tax in the Bombay Presidency was suggested by a Committee appointed by the Bombay Government to enquire into the question of local taxation

in 1915 Proposals have been recently made in the same Presidency for the levy of a tax on all non agricultural incomes exceeding Rs 600 per annum for financing a scheme of compulsory education

446 The tax on companies is a complement to the profession tax which has been recently introduced in the Madras Presidency, both in municipalities and in rural areas All the municipalities but ten have adopted it, and it yielded in 1923 24 a sum of 1 49 lakhs In its present form it is assessable on the paid up capital of the company but may be assessed on the gross income in the case of any local body within whose jurisdiction there is neither a head nor a branch office, and the company has not earned a gross income of Rs 25,000 The former method of assessment is obviously open to grave objection since it is impossible to determine the paid up capital of a branch office, and the Madras Government have already under consideration a proposal that the tax should be levied on net income, gross profits or business turnover instead of on paid up capital

Tax on companies

447 Taxes on pilgrims are usually levied on the railway tickets and are collected by the railway company for a small commission They apply only to certain pilgrim centres, and in many cases they can be imposed only during certain festivals There is usually a free zone, all passengers coming from stations within the free zone being exempt from the tax As a tax on transport this tax is theoretically objectionable, but the rate is so low that it involves little hardship or addition to the expenditure which the pilgrimage normally involves On the other hand, the receipts are generally earmarked for very necessary purposes of providing conveniences for pilgrims and taking measures to prevent the spread of epidemics

Tax on pilgrims

448 A terminal tax on passengers is levied in Calcutta and Rangoon, but the proceeds are credited entirely to the funds of the Development Trusts in these two cities In Calcutta, this tax is collected in the shape of a surcharge of half an anna on each railway or inland steamer ticket from all passengers arriving in or departing from the city by railway or by inland steam vessel The receipts in 1923 24 amounted to Rs 2 lakhs In Rangoon the tax is levied only on passengers departing by sea for a destination other than a port in Burma The tax is levied at the rate of Rs 2 per passenger and is

Terminal tax on passengers

collected by means of a surcharge on passengers by the owner of the vessel in which the passengers are carried. The income realised in 1923-24 was Rs. 4.08 lakhs. A light terminal tax on passengers may be justified in the case of a large city on the grounds that, as a centre of trade or amusement or of public offices, many non-resident persons come in and make use of the amenities provided by the local governing body, but it is difficult to apply this reasoning to the case of the tax levied in Rangoon, which appears to be levied largely, for the benefit of permanent residents of the town, on coolies who merely pass through it.

Tax on menials and domestic servants.

449. The tax on menials and domestic servants is levied in four municipalities in the Punjab, one in Bombay and two hill stations in Madras, and is collected from the employer. The total revenue from this source in all the provinces in 1922-23 was only Rs. 24,000.

FEES AND LICENSES.

Municipal fees fall into three classes.

450. Fees and licenses are very numerous and are levied by almost every municipality in India. They may be classified under three principal heads:—

(1) Fees for specific services rendered by the municipality, such as private scavenging fees.

(2) Fees which are partly in the nature of luxury taxes and which are partly levied for purposes of regulation, such as licenses for music, vehicles, dogs and other animals.

(3) License fees, the primary object of which is regulation, such as fees for offensive and dangerous trades, and license fees for pawn-shops in Burma.

Fees for specific services.

451. The principal fees for specific services are those levied for scavenging purposes. In Madras, the private scavenging fee is based on the number of latrines attached to the house, but in some provinces a special house tax based on the annual value is levied for conservancy purposes, as for instance the *halalkhor* tax in the Bombay Presidency, in other words the fee becomes a rate.

Luxury taxes.

452. License fees on carriages and animals, which are the most important taxes under this head, are levied partly for purposes of regulation and partly for the use of municipal roads, but the rate of tax is very much higher for the more luxurious class of vehicles. The income derived

from this source in the different provinces was as follows —

Province	1921 22	1922 23	1923 24
	RS	RS	RS
(1) Capital cities—			
Madras City	1 81 795	2 29 326	2 23 270
Bombay City (wheel tax)	7 61 000	11 91 000	9 85 511
Calcutta	3 43 627	3 32 785	2 13 762
Rangoon	45,114	41 876	55 960
(2) Other municipalities—			
Madras Presidency	3 10 000	3 31 000	3 46 149
Bombay	3 76 498	4 14 739	4 51 140
Bengal	2 51 044	2 53 179	2 38 57
United Provinces	1 29 215	1 35 974	1 51 190
Punjab	53 329	74 109	83 753
Burma	87 250	1 00 616	97 92
Bihar and Orissa	1 41 095	1 49 887	1 71 694
Central Provinces	79 884	82 601	80 872
Assam	24 397	26 877	29 240

453 License fees for purposes of regulation are usually confined to certain offensive or dangerous trades The precise nature of these trades is not clearly defined in some of the provinces In one province restaurants are classed as a dangerous and offensive trade while in the United Provinces Act provision is made for the taxation of all trades and callings carried on within the municipal limits and deriving special advantages from or imposing special burdens on municipal services The income realised from this source is almost negligible *License fees for purposes of regulation*

In Burma however pawn shop licenses constitute an important source of municipal income Under the Burma Towns Act and the Burma Village Act of 1907 provision is made for the grant of licenses for keeping pawn shops or carrying on the business of pawn brokers and for the sale of such licenses by auction under rules made by the Local Government The City of Rangoon Municipal Act of 1922 contains a much wider provision for the levy of a license fee "for the doing of any act for which the permission of the Corporation is necessary" The income of municipalities in Burma from pawn shop license fees for the years 1922 23 and 1923 24 is given below —

	1922 23	1923 24
	(In lakhs of rupees)	
City of Rangoon	2 99	3 52
Other municipalities in Burma	2 33	2 75

The pawn-shops are primarily a police institution and the system of selling the monopoly by auction has been found to be administratively convenient since petty thieves are prevented from passing their goods on under cover. These shops are mostly kept by Chinese immigrants.

GENERAL SUMMARY AND CONCLUSIONS.

Conclusions summarised.

454. The main conclusions of the previous paragraphs may be summed up under the three following heads :—

(1) The general rate of taxation is undoubtedly low;

(2) too much reliance is placed on indirect taxes on trade and transit;

(3) in the rural areas the jurisdictions of the local bodies are too large from the fiscal point of view.

— the low rates of taxation.

It is perhaps hardly necessary to emphasise the fact that the finances of local bodies all over the country are inadequate for the services which they have to perform. It is not for the Committee to enlarge upon these services, nor to enter upon an analysis of the comparative weight of taxation as compared with income in different countries, but it is perhaps pertinent to remark that, in this matter of local taxation, the incidence per head of the population in India is $\frac{1}{152}$ of that in the United States of America, $\frac{1}{124}$ of that in the United Kingdom, $\frac{1}{18}$ of that in Japan, $\frac{1}{14}$ of that in France and $\frac{1}{13}$ of that in Italy. One of the causes of this is no doubt to be found in the development of the local bodies by a process of devolution, to which reference has been made, and another in the fact that the taxation of real property, which should be the main basis of local taxation, has in a great measure in India been reserved for the State. The Committee have suggested what they hope will afford at least a partial remedy for this in the standardisation of the rate of State taxation on the land, accompanied by a development of local taxation of real property. In the case of lands used for purposes other than agriculture, that is, generally speaking, lands within municipal limits, they have gone further, and while pointing out how exceedingly lightly this class of property escapes, have suggested that the Provincial Governments should make over to local bodies a substantial part of the revenue

that they at present take This process, coupled with an increase in the very low local rates imposed, and an improved system of assessment, ought to result in course of time in a large increase in the municipal income

— excessive reliance on indirect taxation

Meanwhile, the Committee recommend that a strenuous endeavour should be made to get rid of indirect taxation in the shape of octroi and terminal taxes and to replace it, if not by taxation of property and persons, at least by something in the nature of a tax on sales The tax in its present form is one that is condemned by economists everywhere and there are visible tendencies to develop it into a regular tax on transit so much so that the Committee have ventured to suggest that it is a function of the Central Government to exercise more control in the interests of the general trade of the country Similar remarks apply but in a less degree to the case of tolls in Madras It is certainly desirable that these should ultimately be abolished, though it is difficult to see how under present conditions, the revenue can be replaced For the present the Committee have recommended the abolition of the tolls in the case of motor vehicles and their replacement by provincial taxation to be distributed by a road board This should be accompanied if the development of motor transit is not to be hindered by a reduction in the rate of the import duty

the desirability of smaller jurisdictions

In the case of local areas the chief check on the development of any taxation other than the rate on land appears to the Committee to arise out of the fact that the jurisdictions of these bodies are so large as to remove them from effective touch with the tax payers The Committee are of opinion that the objections to the imposition of taxes on houses and persons would be to a great extent removed if the administration of these taxes was entrusted to bodies resident in the villages on which the taxes fell It is very desirable, therefore, from the point of view of taxation at any rate, that the development of the future should be in the direction of restoring the influence of the village panchayat and limiting the functions of the bodies at present operating Subject to these remarks, the tendency in the direction of development of personal taxes upon non agriculturists is one to be encouraged since, as has been seen elsewhere, the small traders in the villages compose one of the classes who escape more lightly than any others from the burden of taxation

Local Taxation of Railways.

There are some cases to which the ordinary principles do not apply.

455. There are certain properties to which the ordinary principles of local taxation do not apply. The most important of these are the properties of railway companies and of persons conducting mining enterprises.

Railway property is entirely exempted in some countries.

456. The railways in India are in the main Government property and in several cases they are also managed by the State. The question therefore arises whether a subordinate local administrative body can or should be allowed to tax an Imperial monopoly; for it may be observed that profits from provincial and municipal enterprises, such as irrigation receipts or profits from markets are exempt from income-tax. In the second place, railways are primarily intended to develop the country, and to the extent to which they compete with roads, they actually relieve local bodies of a portion of their expenditure on communications. In the third place, railways do not benefit to the same extent as private property by the activities of local authorities. For reasons of this nature, in some European countries railways are completely exempt from local taxation, and even in England, where the railways are owned by private companies, the general district rate for local purposes is levied on only one-fourth of the net annual value of railway property.

The liability has been admitted in India.

457. The Committee do not propose to deal with the general question of exemption of railways from local taxation, for the reason that the Financial Commissioner to the Railway Board has stated in evidence that, although he is personally in favour of such exemption, such a measure is not now within the range of practical politics, since in numerous notifications issued under the Railways Act, the Government have definitely admitted the liability of railway companies to taxation for local purposes, and the companies have also acquiesced in the position.

The methods of assessment in countries that impose taxation.

458. The difficult question of the assessment of railway property to local taxes is one in regard to which the example of other countries affords little assistance. Of the arrangements in the United States of America, Professor Seligman has stated that "the remark of the Railroad Tax Committee of 1879 still holds good to-day that a more discouraging example of general confusion could hardly be imagined".* In England, the situation is

* Seligman: Essays in Taxation, page 177.

governed by the fact that the only tax in question is a local rate. There are no statutory provisions regarding the valuation of railway property and the assessments are made in accordance with the Parochial Assessments Act of 1836. The method of valuation is described in detail in the final report published in 1901 of the Royal Commission appointed to inquire into the subject of Local Taxation. For purposes of assessment, stations are valued and rated separately from the rest of the undertaking, the annual value of the stations being assumed to be a percentage of the value of the land and the cost of the buildings. In the case of refreshment rooms, book-stalls, etc., not in the occupation of the railway company, the rent paid by the occupants is taken into account in the valuation of the station and so also is the enhancement in value brought about by the letting of spaces for advertisements. As regards the running line, the net annual value of the portion within each parish is estimated on what is known as the profits principle. "This principle is that a tenant would give as rent a sum equal to the receipts from the property less the expenses of earning them and less the ordinary profit which a tenant would expect. Valuations on this principle include the value, if any, which may be attributed to the more or less complete monopoly conferred on the railway by natural conditions and parliamentary enactments, and in this respect among others a valuation starting from profits would differ from one which was based on the 'contractor's rent' principle, i.e., mainly on capital outlay."*

It is unnecessary to describe the details of the valuation, since the method is based on so many assumptions of a hypothetical character that it would be difficult to say that the final results have any pretence to scientific accuracy. A valuation of each railway as a whole has often been recommended as a means of avoiding the difficulties and absurdities of the parochial system, but the recommendation, though endorsed by the Royal Commission, does not seem to have been given effect to.

The Scottish and Irish systems are more logical. A valuation of the railway as a whole is made by a separate officer. "Under the Scottish system the gross revenue of the railway company is taken from the half-yearly accounts and then certain deductions are made for working expenses and tenant's allowances."* The

* Report of the Royal Commission on Local Taxation, England and Wales, 1897-1902, pages 57 to 59.

total value of the railway thus arrived at is first divided between the running line on the one hand and stations on the other, and the valuation of the stations is allocated to the rating areas in which they are respectively situated. The value of the running line is allocated according to the mileage of each rating area. The Irish system is very similar to the Scottish, but the distribution among individual rating areas is according to the number of train miles in each.

The provisions of section 135 of the Indian Railways Act.

459. In India the earlier Railways Acts of 1854 and 1875 contained no provision as to the taxation of railways by local authorities, and municipal taxes were levied in many provinces before the Act of 1890 was passed. Meanwhile guaranteed and State railways in Bengal were specifically exempted from cesses by means of a notification issued by the Government under the Bengal Cess Act of 1880, and a similar exemption was granted in some other provinces. Since 1890 the local taxation of railways has been regulated by section 135 of the Railways Act of that year, the object of which, as explained by the Government in a letter issued in 1901, was "not to relieve railway administrations from any liability to local taxation, but to obtain control over the demands on railway administrations by municipalities and other local authorities and to see that railway administrations are not unfairly exploited for the benefit of local authorities."* The policy of the Government of India, however, as illustrated by the numerous notifications issued under this section, has not been consistent, and some of the difficulties of the present situation are partly due to the contradictory principles enunciated by them and to their failure to utilise their powers under the Act. The Committee desire to point out that the Act of 1890 contains ample provision for preventing any exploitation of railways for purposes of local taxation. The Government can, by refusing to issue a notification under sub-section (1) to section 135, prevent the imposition of any new tax on a railway by a local body. They can, by revoking an existing notification under sub-section (3), exempt any railway area from the operation of any particular tax, or of all local taxes that are being levied. They can further, under sub-section (2), have a fair and reasonable charge substituted for any specific tax. The railway company have also power to enter into a contract with a local authority for payment for any

* Government of India, Public Works Department, Letter No. 20 R.T., dated 7th January 1901.

service What the Government of India have no power to do is either to prescribe general methods of determining what is fair and reasonable or to decide in cases of dispute what is a fair contract payment for a particular service

460 As has been stated, however, these powers have not been at all fully utilised, and as a consequence difficulties have grown up between the companies and the local bodies in cases of which the three following classes are typical — Difficulties that have arisen in practice

(1) In the first place, the companies in many places have formed colonies of railway servants in the neighbourhood of municipalities and have provided many of the conveniences afforded by the municipalities such as water supply, conservancy, and in some places even roads and lighting The municipalities have moved to have such colonies included within the municipal limits for purposes of taxation, although they were not in a position to provide the necessary services at the standard required by the companies, and the companies have consequently been compelled to maintain the services themselves as before while paying for municipal services which they do not use

(2) Secondly, municipalities in several cases have imposed specific charges upon railway settlements already within their limits in respect of services which the railways are supplying themselves

(3) Thirdly, there has been no uniformity either as regards the nature of the taxes levied or as regards the methods of assessment of individual taxes Consequently, a company dealing with a number of different local bodies, sometimes in different provinces and administering different laws is unable to adopt anything in the shape of a uniform procedure in the matter.

461 The first difficulty is one that it would be possible to deal with by the use of the powers conferred under section 135, but such action would be undesirable, because it would involve the practical overriding of the Methods of meeting them —the case of the new inclusion of a railway colony

action of the Local Government, on which rests the responsibility for sanctioning the inclusion. Moreover, certain of the municipal services, such as the municipal roads, the markets, the hospitals, the schools and other institutions, are made use of by the inhabitants of the railway settlements, and if the principle that railway undertakings are proper subjects for local taxation is conceded, the exemption in such a case should at any rate be only a partial one. A preferable alternative would be to make special provision for the railway authorities to be heard by the Local Government before any order is issued approving the inclusion of a railway colony within a municipality. The hearing would have reference to such considerations bearing on the subject as have been mentioned above, and there might be considered in suitable cases alternatives to inclusion such as, where the settlement has a large, fairly isolated and more or less self-contained population, the constitution of it into a separate municipality, and in other cases a contract payment for the municipal services of which the railway colony does make use.

The case of an existing colony within a municipality.

462. The second case can generally be dealt with under the provisions of the present Act. If a railway company provides service for a railway colony within a municipality and the municipal council levy a specific tax for the same service under conditions under which the Governor-General in Council is satisfied that the company is justified in continuing its own arrangements, then it lies within the power of the Governor-General in Council to annul the levy of the tax. When a company derives some benefit from a service or services, but not the full benefit which the levy of the tax implies, there may either be fixed a fair and reasonable charge, or preferably an agreement may be come to for a proportionate reduction. The Committee would suggest that a reasonable basis for such an agreement would be the remission of a proportion of the tax paid by the colony, the proportion being fixed with reference to the total expenditure of the municipality and the expenditure on the services, the maintenance of which is undertaken by the company.*

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* The point may perhaps be made clear by means of an algebraical formula—
If x is the total expenditure of the municipality, x^1 the expenditure of the municipality on the services undertaken by the company and v is the total revenue derived from taxation of the railway company, the proportion to be remitted will be $\frac{y \times x^1}{x}$.

463. The third difficulty arises from the great variety of laws and authorities interpreting them with which a railway company may be brought in contact. The nature of the property tax imposed and the methods of assessment vary from province to province, while even in the same province most diverse interpretations have been placed in different districts upon the law.

The difference of laws and practice

464. The question of the equitable assessment of railway property to local taxation was considered at some length by the United Provinces Municipal Taxation Committee of 1908-09, who condemned a property tax on railways, partly because it is impossible to assess with any pretence to accuracy the rental value in the case of property which can never be let and which was never intended to be let, and partly because the cost of the buildings erected by a railway company has no relation to the trade of the locality which the station serves, nor is it an index of the indirect benefits which the railway company receives from the area. For instance, a local station is often a junction with very little trade from the surrounding country, but the administrative and other requirements of the company compel it to construct at such a station platforms and sidings and large sheds or other buildings for the purpose of dealing with through traffic The [illegible] Provinces Committee also rejected the plan of indirect [illegible]tion, which was the main system with which they [illegible] dealing, and were constrained to suggest an [illegible] method, which they described as a rate on [illegible] earnings of the station They defined local [illegible] as "the freight earnings attributable to [illegible] and despatched from the stations in the [illegible]" They considered that these earnings [illegible] the amount of traffic passing over [illegible] the railway stations and were [illegible] a measure of the indirect [illegible] authority in the shape of [illegible] assessment is, however, [illegible] which have been pointed [illegible] The gross earnings [illegible] Committee would be twice the [illegible] since all traffic [illegible] stations, the [illegible] Moreover, the [illegible]

Methods of assessment—recommendations of the United Provinces Committee, 1908-09.

* [illegible] paragraph [illegible]

of traffic handled if the municipality happened to be a point of despatch or arrival for long distance traffic, and they would therefore not be a reliable index to the indirect service rendered by the local authority. It would be possible to overcome the second objection by levying a rate on the total weight of goods despatched from or received at the station, which would probably be a more logical basis of assessment, but there is another grave objection to both these methods. The introduction of a tax on railways that is not levied on the rest of the town would enable the local authority, by raising the rate arbitrarily, to exploit the railway for purposes of local taxation. The Government would be compelled to fix a maximum rate, and since some local authorities would not hesitate to introduce the maximum rate in the case of a tax that did not affect the inhabitants of the towns, the Government would in practice have to fix the actual amount that the railway should contribute towards local expenditure. In the opinion of the Committee these proposals would not only fail to produce an equitable system of taxation, but would involve over a great part of India a complete alteration of a system which has at least the merit of being generally recognised and understood.

The Committee prefer the existing system.

465. Thus the idea of taxing traffic fails; it has already been seen that the systems in force in other countries indicate no definite principles which would serve as a guide; an octroi on goods which are not for the consumption of the town is out of the question. The Committee are therefore of opinion that under the circumstances it is advisable to make the best of the existing system of taxation of property, which though undoubtedly defective, has at least this in its favour, that it has been a long time in force.

But it should be worked on more uniform principles.

466. It has already been seen that the ordinary principles for the assessment of property tax in municipalities cannot be applied to the property of a railway company, and some alternative principle has to be taken as a guide. The principle which is most appropriate seems to be that local taxes are largely of the nature of payments for services rendered, and that the service rendered to a railway can best be gauged by the extent and value of property used for the reception and despatch of goods and passengers. The Committee further consider that, since the Government have definitely admitted the liability of railways to local taxation for general purposes, it would be illogical to

exclude the track, but since it has been excluded till now, the exemption should continue As regards the method of assessment, they have examined the diverse systems in force in the different provinces and have come to the conclusion that the Bombay system may be recommended for general adoption In that Presidency railway properties are divided for the purpose of ascertainment of annual value into five classes according to the use to which they are put, and the annual value is fixed as follows —

(1) All buildings, such as railway stations, goods, engine, carriage and other sheds, signal boxes, godowns, etc , used for carrying on the traffic of the railway, at 6 per cent on the cost of the buildings and land

(2) Workshops and necessary offices connected with the working at 5 per cent on the cost of buildings and lands

(3) Offices used for general administrative purposes, as distinguished from offices connected with the working of stations, at the amount for which such offices might reasonably be let to the public

(4) Residences for railway employees, including such portions of the railways as may be used for residential purposes, at the sums at which such residential quarters might reasonably be let without regard being had to the building cost or rents actually paid by the railway employees

(5) Lands under rails and sidings, lands used for sorting, stacking or for similar purposes, at 5 per cent on the actual value of the land at the time the rent is fixed

All vacant land is taxed in class (5), but permanent way and bridges are exempted, except in the case of over-bridges which form an integral part of stations All sheds, godowns, chowkis, etc , which are fixed to the ground are taxed.

The rate of property tax in each case should be the rate fixed for other properties in the same town.

467 The general adoption of these principles would probably require legislation, which might take the form of empowering the Governor-General in Council to frame

The legislation required.

rules prescribing the methods to be adopted in the assessment of railway property. In view of the existing confusion and want of uniformity in the system, such legislation would appear to be amply justified. Provided the items to be assessed and the system of assessment are prescribed by statutory rule, there would not appear to be any necessity to alter the arrangements in regard to the assessing or appellate authority. Should that proposal fail, it would appear to be desirable, in the interest of uniformity, to provide at least for all appeals in the same province to go to the same authority. Such an authority might be a committee consisting of the Commissioner or the Collector, the local Inspector of Railways, and the Inspector of Local Bodies, in provinces where such an officer exists, or a representative of the Local Self-Government Department.

Other taxes—Specific payments for services rendered.

468. So far, the discussion has been confined to the application to the case of railway properties of the main municipal tax or rate which is applied for general purposes. There have to be considered in addition municipal taxes of two other classes, namely—

(a) taxes imposed as the equivalent of specific services rendered, and

(b) taxes imposed on private individuals.

The question of taxes imposed for specific services rendered has already been discussed on general lines. Where the services are rendered to railway property, the railway company may either pay the tax, or contract for the rendering of the service, or, with the consent of the Governor-General in Council, make its own arrangements and be exempt from the tax. Where the services are rendered to individuals, as for instance to railway officers at their residences, the tax must of course be paid by them as by any other individual living in the town.

Personal taxes.

469. Similarly, as regards the taxes on individuals, such as a profession tax, a tax on carriages or a license fee for dogs. The fact that a particular individual residing in a municipality is in the employment of a railway company can, of course, afford no reason for exemption from taxation of this kind. Similarly, in the case of octroi or terminal tax on goods imported by individuals. And under this head must be included importations on behalf of railway co-operative stores and refreshment rooms.

Local board cesses.

470. In addition to the municipal taxes, questions have sometimes been raised regarding the levy from railway companies of local board taxes and the *chowkidari* tax.

The main local board tax is a cess on land for the purpose, chiefly, of the maintenance of roads. Inasmuch as railways compete with roads, and one of their main purposes is to relieve the roads of traffic and so decrease the cost of their maintenance, it is illogical to subject them to cesses for the maintenance of roads. The concession enjoyed by State and guaranteed railways under the Bengal Cess Act should therefore be extended throughout India, if there are any railways that do not enjoy it.

It has been suggested, however, that an exception should be made in the case of mines maintained by railways and that these should be made liable like other mines to the provisions of the Bengal Cess Act. The question is again one of the services rendered. An ordinary small mine uses local roads to place its coal on the railway, but it may be generally assumed that a railway owning a colliery will remove the whole of the coal from it by rail and will not use the roads at all. If the latter be the case, there appears to be sufficient ground for the exemption granted by the Bengal Cess Act.

471. The *chowkidari* tax is applied to the protection of the property of the villager and is levied from 'any person living in the village or owning or occupying a building in the village for storing property or collecting rents in cash or produce'.* It would seem from this that railway servants living in a village would be liable to the tax and that the railway would also be liable in respect of its goods sheds. The amount leviable would be small and there does not seem to be any sufficient ground for exemption inasmuch as the services of the village police would be likely to be used in the case of a theft from such property just as much as in the case of one from any other house in the village. Moreover, the *chowkidari* tax is in process of development into a scheme of payment for local services by which, in the case of small villages, the railway properties will benefit with the rest. As the villages develop into municipalities, other forms of taxation will be introduced and other considerations, which have already been dealt with, will apply. The *chowkidari* tax

Local Taxation of Mines

472. The problems presented by the taxation of mines for local purposes are in some respects similar to those which have been discussed in relation to railways. There is considerable diversity at present in the different provinces. Mines are another special case— the general [illegible]

* The Bengal Village Chowkidari Act, 1871

concerned, not only in the matter of the imposition of local taxes, but also in that of the bases of assessment of the taxes imposed. No special tax is levied in the Punjab, the United Provinces, Burma or Madras. In Assam a cess is leviable on the surface rent only. In Bombay a cess at the rate of one anna in the rupee is collected by the Government on the rent and royalty payable on mining leases, and credited to local funds. In the Central Provinces, under section 51 of the Local Self-Government Act, a District Council may impose "a tax, toll or rate other than those specified in sections 24, 48, 49 and 50". Advantage has been taken of the wide powers conferred by this section to impose a cess of half an anna on every ton of coal exported from the Pench Valley coalfield, while the Chindwara District Council has announced its intention of imposing a cess on manganese ore exported at the rate of one anna per ton. In Bengal, Bihar and Orissa there is a general cess on mines levied under the Cess Act, and special cesses for particular local objects are levied under special Acts in the coalfields. The former cess is assessable at the rate of one anna in the rupee on the annual value of lands and on the annual net profits from mines, forests, tramways, railways and other immovable property. As already indicated, mines belonging to railways have been exempted from this assessment.

Special laws.

473. The special Acts applicable to coalfields are, in Bengal, the Bengal Mining Settlements Act, 1912, and in Bihar and Orissa, the Bihar and Orissa Mining Settlements Act, 1920, and the Jharia Water Supply Act, 1914. The two mining Settlements Acts provide for the establishment of Boards of Health, the expenses of which are charged to owners of mines and persons entitled to collect royalties, the charge on the former being assessed on the amount raised and that on the latter on the road cess payable by them. The tax so levied represents a pure payment for services rendered and the amount collected may not exceed the cost of the services. The Jharia Water Supply Act was passed in order to finance an elaborate water-supply scheme to serve a particular colliery area. The cost of the scheme is met by a tonnage cess on the annual despatches of coal and coke from the mines at such rates, not exceeding 7 pies per ton of coal, as may be determined from time to time by the Water Supply Board, with the approval of the Local Government. This cess is payable by the companies working

the mines. In addition to this a further cess is levied on any person who receives royalty from any mine situated within the area benefited, assessed at such rates, not exceeding 5 per cent of the amount of the royalty received, as the Board may from to time, with the approval of the Local Government, determine. This again is a pure payment for service rendered.

474. It will thus be seen that, while in some provinces mines escape making any contribution for local purposes, in one at least, namely, the Central Provinces, there is a danger of differential taxation under cover of a provision in the law which gives powers of an unduly wide nature. In the two provinces chiefly concerned, namely, Bengal and Bihar and Orissa, there are two classes of taxes, one for general purposes assessed on annual value and net profits, the other for special purposes, based sometimes on raisings and at others on despatches. It has been suggested that there is something anomalous in the existence of the two different bases of assessment, and the further question has been raised in evidence whether, when the tax is based on quantity, it is preferable to base it on raisings or on despatches by rail These are both questions which require a degree of local knowledge which the Committee do not possess, and they understand that the matter is already under consideration of the Government of Bihar and Orissa. They confine themselves in these circumstances to one observation only, namely, that it does not appear to them that there is any necessary anomaly arising out of the distinction in the bases selected for the two classes of taxes The general cesses are raised for the general services of the local bodies and are therefore appropriately levied on the 'ability' principle, whereas the special cesses are earmarked for specific services and in their case the 'benefit' principle is appropriate. The distinction between the two cases.

475. Where the basis of assessment does appear to the Committee to be open to comment is in the application, under sections 5 and 6 of the Bengal Cess Act, 1880, of the same rate of taxation to the annual net profits of a mining enterprise as to the rental value of a piece of agricultural land. It is clear that such an arrangement must make for differential taxation with the result that mines, sometimes situated in out-of-the-way corners of a district, may pay a very large proportion Difficulties that arise out of the basis of taxation.

of the local taxation of the whole, or again that comparatively undeveloped and sparsely peopled districts may secure, by reason of the existence of mines in them, a revenue much larger than that of their more developed neighbours. One remedy for this state of affairs would be to amend the Act and adopt a definition of annual value which would be comparable to that adopted in the case of agricultural land. An alternative course would be to apply different rates to the cases of lands and mines, respectively. Another alternative is to constitute separate boards for the localities in which the mines are situated so that they may adjust their taxation to their needs.

CHAPTER XIV —THE DISTRIBUTION OF THE BURDEN

The limitations on any enquiry into incidence

476 The Committee are instructed to examine the manner in which the burden of taxation is distributed at present between the different classes of the population, and they are to frame estimates illustrating methods of easing the burden where it is too heavy and of increasing it where it is too light The problem bristles with difficulties, for, as Professor Seligman has pointed out, the incidence of taxation is one of the most complicated subjects in economic science, and it is rendered more so in India owing to the lack of any reliable statistical material on which conclusions can be based It would therefore seem desirable to indicate briefly the limitations that are imposed upon any enquiry into incidence by the inherent difficulties of the subject, and the further limitations that are imposed upon the enquiry which the Committee have been directed to make both by their terms of reference and by the circumstances of the case

The difficulty of ascertaining average incomes or taxes

477 It appears to be supposed in some quarters that most valuable results can be secured if there can be ascertained, first the average income of the inhabitants of a country, and secondly the average amount of taxation that falls upon them Reference has already been made to the extraordinary diversity of opinion amongst the accepted authorities as to what does and what does not constitute a tax, while as regards the ascertainment of the average income, it is sufficient to refer to the report of the Economic Enquiry Committee or to Sir Josiah Stamp's well-known study of the "Wealth and Income of the Chief Powers", from which it will be seen that, even in the case of estimates for countries in some of which the statistical material is far more complete than in India, allowances have to be made for percentages of error varying from 10 per cent in England to 40 per cent or more in Spain, Russia, Norway, Denmark, Switzerland and Japan * The same authority has expressed the opinion in the case of India that an

* Sir Josiah Stamp Current Problems in Finance and Government, page [illegible]

estimate of aggregate and average income might be made within a possible range of error of 35 per cent, but certainly not less than 25 per cent.

The limited value of figures of averages.

478. Even if it were possible to determine the figures with reasonable accuracy, they would possess a very limited value for comparison of the relative burden of taxation in different countries, for the true test of that is the relation of the taxation to the taxable surplus or taxable capacity of the community, which is roughly gauged by the difference between the aggregate income and the aggregate subsistence level, or, to put it in another way, the average income per head *minus* the minimum of subsistence. It would further be necessary to take into consideration the distribution of incomes among the community, since it is obvious that the taxable capacity of a community consisting of a few rich men and a large number of poor ones is greater than that of one in which the incomes are evenly distributed throughout. Accurate figures regarding the distribution of incomes are exceedingly difficult to obtain in most countries, nor is it practicable to determine the minimum of subsistence for different countries. In fact, this latter factor represented one of the greatest difficulties of the Reparations Committee, who found that, for instance, the standard suitable to conditions in Spain would be impossible in America. In India, this difficulty is further increased by variations in the standard of living, mainly due to differences in climatic conditions.

Again, it is essential for a determination of the economic effects of taxation in different countries to know how and where the taxes are spent. To take an instance, if a State replaced a private system of education by a State system and levied a tax to pay for it, which was less than the sums paid to the private teachers, there would be an apparent addition to the tax burden, but actually a reduction in the expenditure of the tax-payer. For similar reasons several economists have pointed out that the apparently heavy incidence of taxation per head of the population in the Western countries, where on account of the War the internal debt is very large, is not comparable with the burden calculated on the same lines in a country where the internal debt is small. A very large proportion of the revenue raised in England is utilised for the payment of interest on the War loans raised

in the country itself in other words, the amount is only transferred from one set of people to another

It will thus be observed that an estimate of the proportion borne by average taxation to average income has some value, if qualified by the price factor, in comparing the condition of the same country at different periods, provided that the periods chosen for comparison are not far removed from one another, and again in comparing conditions during the same period in different countries, provided they are more or less similar, but little, if any, value otherwise

479 Nor would a comparison of the incidence of taxation in India with other countries serve any useful purpose from the point of view of the Committee s terms of reference What they are directed to do is to compare the shares borne of the existing total burden of taxation by different classes of the population, and it was added in the original order appointing them that, it would be "within the terms of reference to institute such an enquiry into the economic condition of the people as they might consider necessary for their purpose and to report on the adequacy of the material already available, making suggestions as to the best manner in which it might be supplemented and the most suitable agency for a wider economic enquiry" The latter part of these instructions was subsequently transferred to the Economic Enquiry Committee, and the present Committee were at the same time directed to suspend action regarding the institution of an enquiry into economic conditions until the Economic Enquiry Committee had reported Their report was received only when the report of the Taxation Enquiry Committee was already in course of preparation, and it has therefore not been possible to institute anything in the nature of a special enquiry. From a perusal of the report of the Economic Enquiry Committee, however, it does not appear that this is a matter for regret On the subject of the existing materials for such an enquiry they say that, as regards estimates of income, wealth, etc , no satisfactory attempt has been made in British India to collect the necessary material on a comprehensive scale, and again that the existing material is not sufficient to enable an estimate to be framed regarding the economic condition of the various classes of the people or of any administrative unit or units As

The impossibility of securing new data within the term of the Committee s appointment

regards the future, they suggest a scheme of intensive study which they hope will give data regarding 25 per cent of the population in the course of ten years, and they state, regarding the application of the results of such a study, that they will "in course of time, afford a basis for generalisation as to the distribution of income and wealth, as also the distribution of taxation, Imperial, Provincial and Local, and its relation to the income."*

It will be obvious from the above that no special enquiry which the Committee could have completed within any reasonable period would have been of any value for the purpose of replying to their terms of reference, and that any enquiry that may be made for the purpose will be very expensive and take several years.

The Committee are thrown back upon general considerations.

480. The Committee are therefore thrown back upon such general knowledge of the comparative incomes and standards of living of classes of the population and such general considerations as to the desirability or the reverse of particular taxes from the point of view of their incidence on particular classes of the population as are available to them.

Selection of typical classes.

481. In applying these considerations to their terms of reference, the first point which the Committee have to determine is what are the classes of the population that need be separately considered from the point of view of the incidence of taxation. The problem of classification presents peculiar difficulties in India owing to the fact that standards of living have in many cases no relation to the incomes of the families, but vary with the caste or community to which they belong. In putting forward the following classification, therefore, the Committee do not suggest that it is exhaustive. All that they have endeavoured to do is to select the most typical classes they can in relation to which it is possible to formulate any conclusions.

Beginning from the bottom they would take, first, the two classes of daily labourers, namely—

(a) the urban labourers, including the lower grades of urban artisans,

(b) the landless agricultural labourers and the lower grades of village artisans.

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* Report of the Indian Economic Enquiry Committee, 1925, Volume I, page 40.

They next propose to take the case of the agriculturists and examine the conditions of three classes—

(a) the small holder, whether ryot or tenant,

(b) the peasant proprietor with a substantial holding, generally in the temporarily settled areas,

(c) the large landholder, generally in the zamindari areas

In the case of the trading community they propose to examine the burden of three classes—

(a) the petty trader in the village and in the town,

(b) the larger trader, generally in the town, who is subject to the income-tax,

(c) the big merchant class

In the professional class they propose to consider only two divisions—

(a) the clerical class, including the subordinate ranks of Government servants and the lower ranges of professional men, who are not subject to the income tax,

(b) the upper professional classes

482 The taxes that fall on the daily labourer in urban localities are, generally speaking, those common to the population of those areas, and therefore it is possible in this case to get some idea of the average taxation per head

The urban labourer

The principal taxes that affect him are—

(1) the duty on salt,

(2) the excise duty on cotton goods and kerosene oil,

(3) the customs duty on cotton goods of the coarser class, on kerosene oil, on matches and on sugar,

(4) the customs duty on productive goods, such as machinery, raw materials, etc ,

(5) the excise duty on intoxicants, except foreign liquor made in India, and

(6) municipal taxes

The duty on salt and the customs duties fall, generally speaking, on the whole of India including the Indian

States. The following statement compares the burden of taxation on the urban wage-earner before and after the War :—

Taxes.	1911–14 (average). Amount of tax collected.	1911–14 (average). Population over which it is distributed.	1911–14 (average). Incidence per head.	1922–23 (average). Amount of tax collected.	1922–23 (average). Population over which it is distributed.	1922–23 (average). Incidence per head.
	(LAKHS) RS.	(LAKHS)	RS. A. P.	(LAKHS) RS.	(LAKHS)	RS. A. [illegible]
1. Salt	4,69	315,2	0 2 4	* 6,82	318,9	0 3 [illegible]
2. Customs duties on necessaries, such as sugar, kerosene oil, cotton goods † and matches.	3,44	315,2	0 1 9	11,91*	318,9	0 7 [illegible]
3. Customs duties on productive goods, such as machinery and raw materials.	76	315,2	0 0 [illegible]	[illegible]	[illegible]	0 [illegible]
4. Excise duty on kerosene oil.	..	..	..	65	[illegible]	0 0 [illegible]
5. Excise duty on cotton goods.	53	‡ 243,9	0 0 4	1,85	‡ 247,0	0 1 [illegible]
6. Excise duty on intoxicants except foreign liquor.	§ 2,25	17,1	1 4 10	§ [illegible]	18,1	1 14 [illegible]
7. Municipal taxes— Consumption taxes.	2,70	17,1	1 9 3	* [illegible]	18,1	2 [illegible]
Others	2,47	17,1	1 7 1	* 5,67	18,1	[illegible]
Total, Imperial, and Provincial (items 1 to 6).	..	..	1 9 8	..	..	[illegible]
Total, Municipal (item 7) ..	..	..	3 0 4	..	..	[illegible]
Grand total ..	..	..	4 10 0	[illegible]	..	[illegible]
Index number of prices (average)	..	..	12[illegible]	..	..	[illegible]

The total incidence per head for 1922–23 [illegible] for 1911–14 is Rs. [illegible]

* The figures for 1922–23 [illegible]

† Information is not available [illegible] taken.

‡ [illegible] British [illegible]

§ This has been [illegible]

[illegible]

[illegible]

It will be observed that the burden of taxation on the poorest class corrected with reference to the price index has on the whole increased, mainly owing to the increase or new imposition of customs duties on articles of universal consumption especially sugar, cotton goods, matches, machinery and raw materials It need hardly be pointed out that, under a high general tariff, the position of this class will in the initial stages inevitably be rendered worse, since an adjustment of wages to an increase in the cost of living is in every country a very slow process

The taxes which press most heavily on the poorest class are the excise duty on intoxicants and the municipal taxes on consumption, such as the octroi There would appear from the table to be a very heavy pressure of other municipal taxes also, but in this case it is obvious that the process of dividing a tax like the house tax over the whole population greatly exaggerates the burden on the poorest class The Committee have suggested a removal of the burden of the octroi and terminal tax by the substitution for them of direct taxation which can be graduated according to income or taxable capacity They have also recommended that the salt duty, which is now levied at a low rate, should not be increased except in cases of grave emergency The Government of India are pledged to the abolition of the excise duty on cotton goods as soon as financial considerations allow, and this will afford a certain measure of relief except in the case of those classes of goods in which the home price is determined by the price of the imported article In the case of the duties on intoxicants, the policy of reducing consumption by the pressure of heavy duties and the reduction of the number of places of vend tends to increase the burden on the smaller number who continue to consume them, while reducing it in the case of the many. If the policy of prohibition matures, it seems to be inevitable that the poor man shall be called upon to make up part of the loss of revenue involved, and his share is likely to take the shape of a tax on tobacco

483 The position of the landless agricultural labourer differs from that of the urban labourer in that he receives a lower wage, but consumes less imported or excisable goods He is free of municipal taxes, but pays capitation or apportioned taxes in some provinces It is very difficult to bring out the effect of these changes in figures. The landless agricultural labourer

These figures indicate a total burden of Rs 1-11-0 per head, but it is probable that it will not exceed half this amount in the numerous villages which are remote from liquor shops and the inhabitants of which pay neither capitation tax nor *choukidari* and consume hand woven *cotton goods and indigenous sugar* It does not seem to be either necessary or practicable to suggest any substantial relief from a burden of this sort Meanwhile arrangements have been made whereby the *thathameda* and capitation taxes can be converted into taxes on circumstances and property with an exemption in the case of the poorest classes, and the *chowkidari* tax can be developed into a tax for local purposes These arrangements, though they may not lower the aggregate burden, will render it possible for local bodies to spend more money on services of benefit to the rural classes such as education and public health, and since these services directly affect the well being and efficiency of the labourers, it may be hoped that a gradual improvement in their economic condition will follow

In the case of these two classes it has been possible to make a guess at average incidence because the taxes which they pay are paid either by the whole community or by large definite parts of it In the case of those that remain the Committee have found it impossible to isolate particular sections of the community and particular sums paid in taxation about which it can be said with any approximation to accuracy that the one is responsible for the payment of the other

484 The class of small landholders is a very large and important one In Madras there are no less than 3,490,000 holdings on which the revenue assessed is Rs 10 a year or less The figures of holdings, of course, are not exactly equal to those of the holders, but it may be assumed that the number of small holders is not much less than that shown The small holder, if he is not a tenant, pays, *generally speaking*, in addition to the land revenue and the cesses, the same taxes as the daily labourer, and has a standard of living not much higher than that of the daily agricultural labourer, though perhaps the proportion of his earnings which he spends on intoxicants is less His lot is undoubtedly a hard one, but his difficulties are not primarily the result of taxation The absence of alternative occupations, the crowding of the population on to the land, the fractionisation of holdings, the uncertainty of the seasons, the failure The small holder

farming and become a rent-receiver, and does not become addicted to drink, he is a comparatively prosperous member of the community.

The chief addition that has been made to his tax burden in late years has been in a measure self imposed. Numerous witnesses have regretted the deplorable tendency to litigation which is eating up the farmers earnings While the Committee have not adopted the proposal made by some of them that the cost of litigation should be made prohibitive, they certainly do not consider that any good would result from lowering the fees in order to facilitate recourse to the courts Dr Paranjpye disagrees with this opinion

The only recommendations they have made that are likely materially to affect this class are that the probate duty be extended to all communities subject to a minimum limit of Rs 5,000 and that local bodies be empowered and advised to raise the cesses Even so provision has been made for taking an arbitrary valuation of lands for probate, if it is thought desirable, and for exempting chattels from the tax, while the voting of cesses will rest largely with the class in question and the cesses will, in part at any rate, be spent directly on objects which tend to raise the value of land

486 Although there are individual cases in which the burden on the largest landholder is by no means light, in the majority it rests more lightly than on other classes The income of a member of this class, in so far as it consists of rent, is all surplus after his standard of living has been allowed for He pays a fair share of the customs duties on luxuries, as well as court-fees for causes that are often matters for regret, but he pays no income-tax on his income from land and nothing in the shape of succession duty except in fairly rare cases in Bengal. Even in the case of cesses the burden as between himself and his tenant is not proportionate to the income derived from the land The above considerations have led to one of the most important of the recommendations in the report, namely, that some element of progression should be introduced into the contribution of this class The possible means are to reimpose an income-tax on agricultural incomes or to introduce something in the shape of a general probate or succession duty The question which of these is to be preferred in present circumstances will be considered in a subsequent chapter The large landhold

to save in a good year with a view to meeting inevitable charges in a bad one, wasteful expenditure on marriages, and the high rates of interest form a combination of causes which make it difficult for the cultivator of a holding which is actually uneconomic or very nearly so to keep his head above water. The remedy for this state of affairs lies, however, not in a reduction of taxation, but in changes in other parts of the social economy, some of which may even necessitate heavy expenditure on the part of the State, and therefore an increase in the burden of taxation borne by the community as a whole. It has, moreover, been seen in the chapter dealing with the land revenue that a total exemption of small holdings, even if it were practicable, would have no permanent beneficial effect. Meanwhile, so far as can be judged, the effect of recent settlement policy has been to reduce the share of the net produce taken by the State from 50 per cent to somewhere nearer half that figure, at or about which point the Committee have recommended that it should be standardised. The small holder will benefit also from such measures for the amelioration of the condition of the labouring classes as the increased spending power of the local bodies may render possible. He must, of course, bear, with the rest of the community, the burden of any increase in customs duties as a result of protection, and in so far as he consumes his produce and does not sell it, has little to set off in the shape of the advantage arising from high prices. On the other hand, he will benefit by the increased opportunity for alternative or supplementary employment which may be provided by the increased industrialisation of the country and the reservation of the home market to the home industry.

The peasant proprietor.

485. The case of the peasant proprietor with a substantial holding is very different, inasmuch as the land revenue, being imposed at a flat rate, takes a smaller proportion of his surplus than it does of that of the smaller man. He lives comparatively cheaply and is often almost entirely self-supporting. The prices of his crops, which in his case provide a surplus, have increased within the last 20 years by 117 per cent, while his land revenue has increased by only 20 per cent. The road cess forms a trifling addition. His condition, in the case of the Punjab peasant, for instance, has often been shown to compare very favourably with that of the small farmer in Southern Europe. So long as he resists the temptation to abandon

to save in a good year with a view to meeting inevitable charges in a bad one, wasteful expenditure on marriages, and the high rates of interest form a combination of causes which make it difficult for the cultivator of a holding which is actually uneconomic or very nearly so to keep his head above water. The remedy for this state of affairs lies, however, not in a reduction of taxation, but in changes in other parts of the social economy, some of which may even necessitate heavy expenditure on the part of the State, and therefore an increase in the burden of taxation borne by the community as a whole. It has, moreover, been seen in the chapter dealing with the land revenue that a total exemption of small holdings, even if it were practicable, would have no permanent beneficial effect. Meanwhile, so far as can be judged, the effect of recent settlement policy has been to reduce the share of the net produce taken by the State from 50 per cent to somewhere nearer half that figure, at or about which point the Committee have recommended that it should be standardised. The small holder will benefit also from such measures for the amelioration of the condition of the labouring classes as the increased spending power of the local bodies may render possible. He must, of course, bear, with the rest of the community, the burden of any increase in customs duties as a result of protection, and in so far as he consumes his produce and does not sell it, has little to set off in the shape of the advantage arising from high prices. On the other hand, he will benefit by the increased opportunity for alternative or supplementary employment which may be provided by the increased industrialisation of the country and the reservation of the home market to the home industry.

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farming and become a rent receiver, and does not become addicted to drink, he is a comparatively prosperous member of the community

The chief addition that has been made to his tax burden in late years has been in a measure self imposed Numerous witnesses have regretted the deplorable tendency to litigation which is eating up the farmers earnings While the Committee have not adopted the proposal made by some of them that the cost of litigation should be made prohibitive, they certainly do not consider that any good would result from lowering the fees in order to facilitate recourse to the courts Dr Paranjpye disagrees with this opinion

The only recommendations they have made that are likely materially to affect this class are that the probate duty be extended to all communities subject to a minimum limit of Rs 5,000 and that local bodies be empowered and advised to raise the cesses Even so provision has been made for taking an arbitrary valuation of lands for probate, if it is thought desirable, and for exempting chattels from the tax, while the voting of cesses will rest largely with the class in question and the cesses will, in part at any rate, be spent directly on objects which tend to raise the value of land

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The village trader.

487. The village trader is typical of another class that escapes with a light share of the burden. He pays the general taxes which the daily labourer pays. But, inasmuch as he is generally temperate by religion, he does not contribute much to the revenue from liquors and drugs. While he pays no land revenue, he secures the privileges of a landholder in respect of a house-site free of any Government charge. There are certain taxes that are specially designed for him, but they have, in great measure, failed in their object. These are the *thathameda* in Burma and other taxes of the nature of license or profession taxes, but as has been seen, the *thathameda*, which was intended to fall on the non-agricultural classes, has actually been imposed on the agricultural classes as well. The case of the *chowkidari* is similar. The *haisyat* is difficult to administer and the profession tax imposed by certain local bodies in Madras has already begun to be withdrawn.

The Committee have recommended that this class should be brought within the scope of further taxation by a more general extension and a more efficient administration of taxes of the nature of the circumstances and property tax and the profession tax.

The small trader in towns.

488. The case of the small trader in the town may be differentiated in certain respects from that of the small trader in the village. He does not receive a revenue-free site for his house. He is more generally liable to the profession tax in municipalities where such a tax is levied. It is hoped that the equalisation of the burden in his case may be brought about by means of local taxation, namely, by the universal levy of the profession tax and by an increase in the rate of the property tax.

The larger trader, generally in towns.

489. The larger trader with an income below the super-tax limit becomes liable to the income-tax, but still escapes with a comparatively light burden. His standard of living is comparatively low, and the existing grading of the income-tax results in the burden being comparatively low in the case of incomes between Rs. 15,000 and the super-tax limit. This class also pays a share of the revenue from stamps and court-fees, but it is only in comparatively rare cases that it becomes liable to other taxation, except of course the general taxes which affect all classes. The chief measure suggested towards the equalisation of the burden in this case is a general extension of the probate duties and a steepening of the graduation

of the income tax, coupled with an increase in the local taxation similar to that mentioned in the case of the smaller trader

490 The big merchant class includes the proprietors, partners and managers of large businesses, who are found almost entirely in the towns These people, together with the highest classes of professional men and a few officials, contribute between them 66 per cent of the total collections of the income tax, the bulk of the probate duties, the bulk of the customs taxation on luxuries, which amounts to 31 per cent of the whole, and a large proportion of the fees and taxes on transactions These classes have borne the brunt of the many new burdens that have been imposed since the War, which landowners have to a great extent escaped Even conceding this, their burden is not heavy as compared with the burden on similar classes in other countries

The big merchants

The Committee propose an increase on this class through the general extension of the system of probate duties, the inequality of which under present conditions is specially noticeable in the case of persons of this class It does not appear to them advisable at this stage to suggest a further increase in the rate of income-tax on the higher incomes, but they have suggested a small addition to the super-tax and a modification of the super tax on companies which will affect them indirectly

491 The lower professional class is one which has undoubtedly suffered under recent developments, more by reason of their comparatively high standard of living and of the fact that their earnings have not responded as closely as those of the manual workers to the increase in prices, than by reason of any increase in the burden of taxation Their contribution to the general taxation of the country is comparatively small, including a share of the salt duty, the municipal, house and profession taxes and a portion of the customs duties on necessities and semi-luxuries, such as piece goods, tobacco and bicycles On the other hand, their standard of living in respect of clothing, housing, conveyance charges, and especially education, is much higher than that of persons with corresponding incomes in the trading class In view, however, of the small contribution they now make, it is not possible to suggest any measures for their relief This must come either through a reduction in prices or through an increase in salaries

The professional classes—the lower grades

The professional classes—the higher grades.

492. The case of the most prosperous members of the professions has already been mentioned in considering that of the largest merchants and business firms. Generally speaking, the members of this class pay the same taxes and enjoy almost the same standard of living, a standard which, *in their case*, has improved very considerably within the last two generations. In one respect this increase has brought about an increased liability to taxation, namely, in the shape of rates payable on houses constructed at large expense.

A summary of conclusions will be found in the next chapter.

493. These considerations conclude a review of the burden of the taxes borne by certain typical classes of the population when considered in relation, roughly, to their comparative wealth and their standards of living. It is not claimed that it is exhaustive or that it is based on statistical data or on an analysis of family budgets. The factors which the Committee have examined are those which they believe, any prudent Finance Minister would examine in framing or revising a scheme of taxation. A summary of their conclusions and of the considerations on which they are based will appear in the following chapter.

CHAPTER XV —THE ORDER OF PRECEDENCE.

494 One of the directions contained in the terms of reference to the Committee is to prepare rough estimates of the financial effects of their proposals The Committee regret that it has become increasingly obvious as their enquiry proceeded that it would not be practicable for them to comply with this instruction in a manner that would serve any useful purpose An estimate of the financial effect of the proposals made by them could only be based on a revision of figures at present available It would not be useful for anything but the immediate future, and even for that purpose it would be necessary to assume a definite fixation of rates This would be possible in a few cases such as the regrading of the income tax or the imposition of a new export duty What the Committee have been largely concerned with, however, is the examination, not of the immediate future, but of the tendencies that are likely to operate for a generation or more under conditions so variable that it would be impossible to suggest uniform rates applicable to the whole country Nor again is it possible to assume any such stability in policy generally, or in the services that will be undertaken by the various governing bodies in India, or in many other factors that intimately affect the matter, as would render the framing of estimates of the taxation receipts of the governing bodies in a continent a possibility

The Committee have found it impossible to prepare an estimate of the results of their proposals

495 *In these circumstances, the most the Committee* can do is to arrange their recommendations in an order of precedence As has been said, what they have endeavoured is to trace tendencies, and to indicate those that should be encouraged and those that should not, and what they propose to do in their order of precedence is to give a rough idea as to which of the various proposals that have been made by them in relation, first, to the reduction of existing taxes, and second, to the replacement from other sources, of the revenue lost, should be given preference

What they have endeavoured to do is to trace tendencies

496 Before offering any such table for the future it seems desirable to indicate briefly the tendencies that have been in evidence in the past and the manner in which they have operated The Committee have endeavoured

The tendencies illustrated by the developments of the past

to do this in the table below. In putting it forward, they would explain that it is not intended as a table of the total revenues of India, nor even as one of the total tax revenues as defined in the chapter on the Scope of the Problem. The Committee have not found it possible to separate out the receipts from all these sources sufficiently clearly for embodiment in it. What they have done is to examine the total receipts under the heads of taxation which have been dealt with in the preceding chapters, namely, land revenue, which includes water-rates in cases in which they are consolidated with the land revenue, customs, excises, both those levied for revenue purposes and restrictive excises, the income-tax, the stamp revenue, both non-judicial and judicial, which includes the probate duties also, and local taxation, to which head they have added capitation and apportioned taxes, as being more cognate to this than to any other head :—

Tax head.	Percentage to total tax revenue.				
	1883-84.	1893-94.	1903-04.	1913-14	1923-24.
(1)	(2)	(3)	(4)	(5)	(6)
Land Revenue	53·15	46·71	42·76	35·42	20·75
Customs	2·98	3·27	9·21	12·99	24·30
Excises	25·07	26·51	24·97	22·92	21·67
Income-tax	1·32	3·39	2·92	3 52	12·30
Transactions and fees	} 9·47	9·59	9·39 {	10·89	9·03
Probate duties				·18	·15
Local taxation (and capitation tax etc.).	8·01	10·53	10·75	14·08	21·70

The figures given in the table show that a change almost amounting to a revolution has already taken place in the proportions borne by the different taxes to the total revenue. Thus the land revenue, which was the mainstay of the Government forty years ago, contributing 53.15 per cent of the whole receipts, now contributes only 20.75 per cent. On the other hand, customs has advanced from less than 3 per cent to over 24 per cent, and the income-tax from 1.32 per cent to 12.30 per cent. The share borne by excises has fallen from 25.07 per cent to 21.67 per cent, partly owing to the reduction in the salt duty and partly no doubt to the drastic action taken in connection with intoxicants. The shares borne by stamp duties, including probate duties, and local taxation have been more consistent.

497 The main result of the Committee's general review of the taxes has been to show that these tendencies in the past have been in the right direction, and to suggest further redistribution on somewhat similar lines It may be useful to summarise briefly the conclusions that have suggested themselves In doing this and with a view to what follows, it is desirable to draw a distinction between tendencies that are already in operation, and which it falls to the Committee rather to record as factors of which they must take note, and tendencies which they think it desirable to set in operation or to encourage They propose further to draw a distinction between items of Local taxation, which do not affect the country as a whole, and the items of Imperial and Provincial taxation to which the order of precedence will principally apply

Those dealt with by the Committee

498 The operation of the first set of tendencies has been referred to in the Committee's terms of reference themselves as follows "The increasing pressure for a more drastic regulation of the liquor traffic in particular makes the study of alternative sources of taxation imperative, while the modifications in the existing system of taxation which may be expected to result from action taken on the recommendations of the Indian Fiscal Commission and the Tariff Board will disturb the distribution and affect the real burden of taxation borne by the people of India" The Committee have expressed the opinion that a policy of real prohibition would involve a loss of revenue exceeding the return from any new proposals they can put forward, while they have shown that the pursuit of the present policy is likely to lead to large reductions To this has to be added the loss that must follow the removal of the excise duty on cotton goods They have contemplated the probability of a small increase in the return from customs duties on imported liquors if these are raised in pursuance of the declared policy of the Government of India They have also suggested that the high import duty on matches may in course of time lead to the imposition of an excise, but this would only be for the purpose of making good a loss under the customs head No doubt the policy of protection will lead to other changes of the kind, which it is impossible to forecast

Tendencies already in operation.

499 The following is a summary of the Committee's proposals under the head of Local taxation :—

The Committee's proposals summarised — in the case of Local taxation

(1) The conversion of the *thathameda* and the capitation tax into local taxes should be expedited and

they should cease as early as possible to be sources of provincial revenue. A similar procedure should be followed in the case of the *chowkidari*.

(2) The land revenue should be standardised at a comparatively low rate, not exceeding 25 per cent of the annual value, so as to give greater scope for local taxation of land, which might be increased up to 4 annas in the rupee on the standard rate of land revenue assessment. Over and above this, special assessments should be imposed for special local improvements.

(3) The rates on non-agricultural land in towns should be increased and a substantial fraction of the collections of the Local Governments from ground rents in towns should be made over to local bodies.

(4) Municipalities should be given power to tax advertisements.

(5) Taxes on entertainments should be more widely imposed and a substantial share of the proceeds given to local authorities.

(6) The octroi and the terminal tax should be abolished and replaced either by taxes on property and persons or by a tax on retail sales.

(7) Local bodies should be encouraged to tax private markets and to realise more revenue through the letting of stalls in municipal markets at competitive rates.

(8) The import duty on motor cars should be reduced so as to enable Local Governments to levy a provincial tax and to distribute the proceeds among local authorities, who should then abolish the tolls on these vehicles.

(9) The tax on professions and trades should be extended, especially in rural areas.

(10) Power should be taken for the levy of a fee for the registration of marriages in selected areas.

It will be seen that the majority of these are proposals for the increase of the tax revenues of local bodies, in some important cases at the expense of Imperial or Provincial revenues.

—in that of Imperial and Provincial taxes.

500. The following is a summary of the Committee's chief recommendations in relation to Imperial and Provincial taxes:—

(1) The land revenue should be standardised at a percentage of the annual value not exceeding 25 per cent.

(2) Wherever possible the charge for water should be separated from the charge for land, and in the interests of the general tax payer a much higher proportion of the value of the water supplied to the cultivator should be taken in the shape of water rates

(3) The import duties on wine, beer and spirits should be increased

(4) Those on articles consumed by the poorest classes, especially sugar, and the raw materials of industry should be reduced

(5) The export duty on hides should be removed

(6) An export duty on lac should be considered

(7) An export duty should be imposed on oil seeds, bones and other forms of manure

(8) An excise duty should be introduced on locally made cigarettes and pipe tobacco, accompanied by an indirect excise on country tobacco

(9) A duty should be imposed on patent medicines, both imported and locally made

(10) A duty should be imposed on the cylinders of carbonic acid gas issued for use in making aerated waters

(11) In the case of excises imposed for purposes of restriction, the Committee have suggested the desirability of enhancing the direct duty on country spirit in Bihar and Orissa, and Assam, the raising up to the tariff rate of the duty on country made 'foreign' liquor, and the extension of the tree tax system under proper control In the case of opium they have recommended a uniform high rate of duty and the abolition of the system of sale of shops by auction

(12) In the case of taxes on incomes the Committee have recommended a change in the system of graduation which would result in an increase in the return from incomes in the intermediate scales, and the introduction of a super tax of 6 pies in the rupee on incomes between Rs 30,000 and Rs 50,000

(13) They have also recommended the conversion of the present super tax on companies into a corporation profits tax and the removal of the exemption limit of Rs 50,000

(14) An increase has been suggested in the charges for licensing of fire arms

(15) In the case of taxes on transactions levied through means of stamps, a revision of the rates in the direction of reduction has been proposed

(16) The Committee have also made proposals for the fuller realisation of stamp duties on stock exchange transactions, which are at present largely evaded.

(17) They have found that the return from the service of registration of documents is legitimate and might be increased.

(18) In the case of court-fees, they have recommended an arrangement under which the court-fee on suits should be taken in two instalments, of which the second will not be payable till the settlement of issues. On the other hand, they have proposed, among other things, a revision of the method of calculating the value of land for purposes of suit valuation, which would result in an increase in the receipts, but on the whole they expect a reduction in the total. They have endorsed the recommendation of the Civil Justice Committee that a profit should not be made from such services as copying and service of processes.

(19) As a means of securing a larger share of the surplus of the wealthier classes and of removing an existing inequality, they have recommended the extension of the probate duties to all communities, the limit of exemption being placed not lower than Rs. 5,000.

(20) On the question of an income-tax on agricultural incomes some members of the Committee, while agreeing that there may be no historical basis for the exemption, are of opinion that such a tax is only justifiable as a temporary measure at a time of national emergency such as war or a widespread calamity either due to pestilence or drought. Other members take the view that, even in normal times, in view of the abolition of the cesses, there is no theoretical justification for the exclusion of agricultural incomes from the operation of the income-tax. All are, however, agreed that under present conditions, for administrative and other reasons, the abolition of an exemption which has been in existence for so many years is inopportune and undesirable.

— in relation to typical classes of the population.

501. The following is a summary of the Committee's proposals regarding the easing or increasing of the burden of taxation at present falling on certain typical classes of the population :—

The urban labourer.—The burden on this class has increased during recent years, mainly owing to the increase or new imposition of customs duties on articles of universal consumption, especially sugar, cotton goods,

matches, machinery and raw materials It will be to some extent reduced by the reduction of the excise duty on cotton goods It is not desirable to reduce it under the heads of salt or excises on intoxicants A decrease in the customs duties is a more satisfactory course

The landless agricultural labourer —The total burden on this class, especially in villages which are removed from liquor shops and where neither capitation nor *chowkidari* tax is in force, is very low The members of it would be indirectly benefited by a reduction in the customs duty on goods consumed by all classes

The small holder —The difficulties of the small holder are not primarily the result of taxation except in so far as he suffers with the rest of the community from the effects of high tariffs In order to afford relief to this class the Committee have suggested the standardisation of the land revenue at a flat rate not exceeding 25 per cent of the annual value

The peasant proprietor —The peasant proprietor with an economic holding is a comparatively prosperous member of the community The only recommendations the Committee have made that are likely materially to affect this class are that the probate duties be extended to all communities subject to a minimum limit of Rs 5,000, and that local bodies be empowered and advised to raise the cesses

The large landholder —Except in individual cases the burden of the largest landholder is comparatively light He pays a fair share of the customs duties on luxuries as well as court fees, but pays no income tax and nothing in the shape of estate duty except in certain cases in Bengal The possible means of increasing the contribution from this class would be by the imposition of an income tax on agricultural incomes or something in the shape of a general probate or inheritance duty

The village trader —The village trader pays the general taxes which the daily labourer pays, and the taxes that are specially designed for him, such as the profession tax in rural areas, have to a great measure failed in their object The Committee have recommended that he should be made to pay a higher contribution to the general revenues by a more general extension and a more efficient administration of taxes of the nature of the circumstances and property tax and the profession tax.

The small trader in towns.—The position of the small trader in the town is different from that of the small trader in the village in that he is more generally liable to the municipal profession tax. The Committee have suggested in his case that the equalisation of the burden might be brought about by means of local taxation, namely, by the universal levy of the profession tax and by increasing the rates of property tax.

The larger trader.—The larger trader with an income below the super-tax limit becomes liable to the income-tax, but still escapes with a comparatively light burden. He will be affected by the general extension of the probate duties and by a steepening of the graduation of the income-tax coupled with an increase in local taxation similar to that mentioned in the case of the small trader.

The big merchants.—This class contribute a large percentage of the total collection of the income-tax, the bulk of the probate duties, the bulk of the customs duties on luxuries and a large proportion of the fees and taxes on transactions, but their burden is not heavy as compared with the burden of similar classes in other countries. Their contribution will be increased by the extension of the system of probate duties, by the increase proposed in the case of the super-tax and by the abolition of the exemption limit in the case of the super-tax on companies, which it is proposed should be converted into a corporation profits tax.

The professional classes, lower grades.—This class have suffered under recent developments, but their contribution to the general taxation of the country is comparatively small, and it is not possible to suggest any measures for their relief.

The higher professional classes.—The position of this class is similar to that of the largest merchants.

The order of precedence suggested—in the matter of reduction of taxation.

502. It remains to suggest the order of precedence in which it seems to the Committee desirable that effect should be given to their recommendations. They desire to emphasise the fact that such a table can only be of the roughest nature, affecting as it does both Imperial and Provincial finances, which must necessarily be

influenced by innumerable causes other than the recommendations of the Committee —

(1) In the matter of relief of taxation preference should, in the Committee's opinion, be given to the poorest classes whose burden has not, as will be seen from the figures in the preceding chapter, been relieved to the extent that is sometimes supposed, although there is no doubt that wages have risen considerably The tax through which relief could most easily be given is of course the salt tax, and Dr Paranjpye would advocate that that be reduced, but, in the opinion of the majority of the Committee, this would not be a suitable measure in present conditions for the reasons that the rate is already so low that the burden of it is extremely small, and that changes in the rates are greatly to be deprecated on the ground that they are apt to cause reduction in the Government revenue out of all proportion to the benefit received by the people The Committee therefore fall back upon the next indirect tax on general consumption, namely, the customs duties on conventional necessities, such as sugar, kerosene oil and matches The most appropriate of these for reduction seems to them to be that on sugar, which is not only high itself but has the effect of raising the price of country-made sugar all over the country

(2) The second place they would give to the removal of the export duty on hides, for the reason that the duty has failed in its purpose of assisting the building up of local manufactures from hides, while it tends to check the export trade and so to injure another class of producers Dr Paranjpye is not a party to this recommendation

(3) The third place they would give to non-judicial stamps More than one Finance Member has admitted that the rates in India are much higher, comparatively speaking, than those in England, but have maintained them for reasons of revenue If and when these reasons permit, it seems to the Committee that effect should be given to their recommendation for a revision of the schedule in the direction of reduction, especially in relation to documents such as bonds and agreements

(4) In the fourth place they would place the standardisation of the land revenue, which they anticipate will ultimately result in a further reduction of the proportion borne by land revenue to the total taxation

Their reason for giving this a comparatively low place in the order is not that they do not regard it as an urgent reform. It is obvious, however, that it can only be carried out as settlements fall in and that it cannot be given full operation for some considerable time to come.

(5) The fifth place they would give to the reduction of court-fees. In this matter their recommendations are partly for reduction and partly for increase. On the whole, they expect that a reduction will follow the acceptance of their recommendations, especially if the court-fee on suits is collected in two instalments. One matter which, in their opinion, requires immediate attention in this connection, however, is the placing of the fees for copying and for the service of processes on a commercial basis and the cessation of the present practice, where it exists, of making a profit out of them.

The above recommendations are only secondary to the removal of the excise duty on cotton goods and a revision of the share borne to the total revenue by that derived from intoxicants. The loss of revenue under these two heads, which is likely to result from the carrying into effect of the policy to which the Government of India in the one case and several Ministers in the other are pledged, is likely to be so great as to absorb any new taxation that may be imposed and to delay reductions under other heads.

—in the matter of substitutes for taxes removed or reduced.

503. To come next to the question of possible substitutes for existing taxes:—

(1) The Committee would give the first place to the proper collection of duties on stock exchange transactions. These are duties of a very suitable nature which would be yielding a considerable return at present if it were not for continued evasion. The Committee hope that the steps that have been taken in Bombay, and the further steps that are likely to be taken in this matter, will render it possible to check the evasion which has operated so detrimentally on the revenue, and they consider that the removal of this defect in the present taxation system is a matter to be looked into without delay.

(2) They would give the second place to the conversion of the super-tax on companies into a corporation profits tax and the abolition of the exemption limit. They urge this, because they believe that the exemption limit rests on a false analogy, that it has facilitated the

evasion of the income-tax, and involves, generally speaking, a defect in the taxation system.

(3) They would give the third place to their proposals for the re-grading of the income-tax, and introducing a super-tax of 6 pies in the rupee on incomes from Rs. 30,000 to Rs. 50,000. They have some hesitation in proposing a change in rates which have been comparatively recently imposed, but they consider that this is a measure of adjustment which is necessary, not only as between the income-tax payers and the other classes, but also as between the different classes of income-tax payers themselves.

(4) In the next place, they would advocate an increase in the rate of duty on country-made 'foreign' liquors up to the tariff rate and an increase in the excise duty on country spirits in Bihar and Orissa and Assam.

(5) An increase in the license fees for fire arms is a comparatively minor matter, but inasmuch as, under the conditions recommended by the Committee, it would involve taxation of a luxury, it is entitled to a comparatively high place.

(6) The next place they would give to the taxation of patent medicines. This is a comparatively small matter, but that is perhaps a reason for taking it in hand in time. The consumption of these goods is a matter of luxury, and frequently a harmful luxury, and the people who consume them can well afford to pay the tax.

(7) The next place they would give to the general extension of probate duties. They regard this as one of the most important recommendations of their report, designed to remove a gross inequality which exists among those who already pay the tax, and what is more important, to adjust to some extent the inequality existing as between those who derive their incomes from land and the rest of the community.

(8) The eighth item is a comparatively small one; namely, the extension of the tax on entertainments and betting. The Committee do not propose any addition to the rates where these taxes are in force, but they think they are taxes of an appropriate kind and may well be imposed in other places. It has already been recommended that a considerable part of the proceeds should be made over to local bodies.

(9) In the ninth place, they would put the imposition of taxation on tobacco. It is possible that this is a head which would be better divided up, inasmuch as it affects both Imperial and Provincial revenues. The case for an excise duty on locally-made cigarettes or an increase in the import duty on unmanufactured tobacco is a strong one, and it is possible that the Government of India may find reason for action on these lines at a comparatively early date. The imposition of a general license duty in the case of country tobacco is, it is true, a corollary to it. But if the Committee's recommendations are adopted, it will fall to Local Governments to take it in hand, and they are likely to do so only by degrees.

(10) In the next place, the Committee would place, in case of necessity, the imposition of additional export duties. The only one of these in respect of which they are all agreed is the export duty on lac. Even this they would not like to see imposed without a prior enquiry into the industry. As indicated in their chapter on the subject, three of their Members are anxious to add an export duty on oil-seeds, bones and other manures. This is suggested, in the main, with objects other than those of finance. Two Members would add an export duty on raw cotton.

(11) An excise duty on ærated waters is only recommended in case of necessity.

(12) The last place they would give to an income-tax on agricultural incomes, subject to the considerations mentioned in an earlier part of this chapter.

The tendencies recommended compared with the condition of affairs in other countries.

504. It has already been said that the Committee find themselves unable to give any estimate of the financial results of these proposals. Nor does it appear to them desirable, in view of the many factors that would require to be taken into consideration, that they should even venture on a guess as to the proportions that would be borne to the total revenue by the different items of taxation if and when their recommendations have had time to bear fruit. It may, however, be of some use briefly to examine the proportions borne by the items of taxation referred to in the previous table to total taxation in some other countries, to compare them with the percentages at present obtaining in India and to see roughly how far the suggestions made would tend towards bringing the arrangements in India more into line with those of

countries that are more advanced. An attempt to do this may be based on the table below :—

Tax Heads.	India, 1923-24.	United Kingdom, 1922-23	Italy, 1923-24.	Japan, 1922-23	Australia, 1921-22.
Land tax	20 75	0 30	20 42	5·08	4·66
Consumption taxes	45 97	28 04	14 36 *18 09	29·97	36 78
Income-tax	12 30	38 11	20 42	19·38	35 05
Transactions and fees	9 03	5 35	11 65	7·04	5 33
Death duties	0 25	5 69	1·43	·75	4 27
Local taxation	11 70	‡ 22 51	† 13 63	37·78	13·91
Total	100 00	100 00	100 00	100 00	100 00

* Monopolies (tobacco, salt, matches, playing cards, quinine).

† The figure relates to 1921 and has been adopted for want of later figures

‡ Assumed—*vide* page 131 of the Political Science Quarterly, March 1924.

It will be seen that the Indian land tax bears a proportion comparable to that in Italy, but not in any other country. The comparison would be very different, however, if there were added to the land tax the income-tax taken on agricultural incomes, and still more so if there were added to it the local rates on property. The effect of the Committee's recommendations would be to reduce the percentage borne to the total by the land revenue in India, and they hope there would follow an increase in the share borne by local taxes, which is disproportionately low.

In the case of consumption taxes, it will be seen that India again takes the highest place. This is inevitable in a country where the income-tax, which is the main standby of other countries, is not levied on the principal industry, where other industries are comparatively undeveloped and the people are inveterately averse to direct taxation. The Committee have suggested an increase in the income-tax and a decrease in certain of the customs duties. It is possible, however, that these will be offset by increases in other customs duties as a result of the policy of protection.

The low share borne by the income-tax has been explained above. It has, however, been advancing very rapidly in recent years and may be expected to advance still further as soon as the present depression in trade passes. Meanwhile, the Committee have recommended measures in relation to income-tax and super-tax on companies which between them may be expected to bring about an increase of approximately 1.36 crores of rupees.

The high proportion borne by taxes on transactions and fees has been referred to, and the proposals made by the Committee for a reduction in these respects, coupled with changes in the other parts of the system, would tend to bring the Indian proportion more into line with those of the countries in respect of which the comparison has been made.

In the matter of death duties again, India falls behind the rest of the world. The Committee's proposals only provide for a small beginning in the direction of remedying this. But the matter is one in respect of which it is obviously desirable to proceed with great caution.

The matter of local taxation has been referred to above. The Committee have suggested various methods of augmenting the resources of local bodies, which they hope will not be without their effect. At the same time, they feel bound to remark that there is at present no popular demand for a higher standard of sanitation, and little for the other services rendered by local bodies except education. It is sanguine in these circumstances to look for any large advance in this matter until there has been a large spread of education and the local bodies by reductions in their jurisdictions have been brought into closer touch with the people whom they serve and on whose willingness to bear taxation their revenues ultimately depend.

CHAPTER XVI.—THE DIVISION OF THE PROCEEDS.

PART I.—IMPERIAL AND PROVINCIAL.

505. The Committee are instructed to indicate the theoretically correct distribution of taxes between Imperial, Provincial and Local. By a subsequent order there has been added to these instructions a direction to advise on the operation of Devolution Rule 15 in regard to the allocation to Provincial Governments of a share of the income-tax, which has not been quite fair to all of them in the past.

The lessons to be learnt from other countries are limited to a few general tendencies.

It is hardly necessary to point out that there is no system generally accepted as the theoretically best system of taxation, and as Sir Josiah Stamp says, there is no country in which the whole system of taxation is logically worked out from first principles.* Similarly, there is no Federal Government in which the distribution of the taxes between the Federation and the States that compose it is based upon considerations of pure theory.

It may be pertinent to remark, however, that the gigantic experiment in constitution-making now in progress in India is, in so far as the element of federation goes, reversing the process that has resulted in the formation of federations in Germany, America, Australia and elsewhere. Whereas these have come about through the association of States for common ends, the attempt in India is to break up one unitary State into a number of separate provinces whose Governments will each exercise a large part of the powers of the old Central Government.

Consequently, in seeking examples to illustrate the theoretically best division of revenues, it has to be remembered, not only that the systems adopted by different countries have been moulded by widely differing influences emanating from the past history of the particular States, the psychology of their people, the religious differences prevailing among them and their trade and foreign relations with their neighbouring States,

* Sir Josiah Stamp: Fundamental Principles of Taxation, page 21.

been laid upon the necessity of making functions relating to inter-State trade Imperial that special provision to this end is contained in the federal constitutions of Germany, the United States of America and the Commonwealth of Australia. This provision applies in the first instance to questions of taxation, but also governs questions of services rendered to trade such as regulation of the currency and the post office, and in some cases railways, and occasionally to questions of regulation of labour.

Functions of law and order include the maintenance of courts, of the police and of jails, together with the control of arms, explosives, newspapers and some cognate matters. These functions are normally functions of the States, but, as has been seen in the chapter on Local Taxation, police is also in great measure a function of local bodies.

Functions relating to the amelioration of the condition of the people include education, public health, the maintenance of roads and the encouragement of agriculture. These are functions in respect of which there has been a great expansion of activities in recent years all the world over. They are generally regarded as the appropriate functions of local bodies subject to the general control of the State, but the expanding expenditure upon them has resulted in the grant of assistance in greater or less degree by State and even by Imperial Governments.

507. The varying distribution of functions results in a varying distribution of expenditure by the different classes of governing bodies, and this is reflected to some extent in the taxes which they levy. While here again there are the widest variations between different countries, and the effects of the War have been in many cases to throw back developments on common lines that were in progress, there are nevertheless some general tendencies which can be traced— Tendencies relating to the division of taxes.

(a) Indirect taxes, with the possible exception of stamp duties, are commonly regarded as suitable sources of Imperial taxation, for the reason that their exact incidence cannot be ascertained.

(b) Taxes on corporations are commonly Imperial because the operations of large companies often extend throughout the country, and adequate and uniform administrative supervision of such organisations is desirable.

(c) A personal or general income-tax is generally regarded as a source of State revenue.

(d) Taxes on property are seldom Imperial and tend to pass increasingly from State to Local.

The principal taxes considered.

508. These are only general tendencies, and it will be useful to examine some of the taxes more in detail with reference to them. For convenience sake the order of the taxes taken in the report may be followed.

Capitation and apportioned taxes tend to be extinguished, and where they continue, as in America and the Philippines, to become sources of local revenue.

The land revenue tends to become standardised, and any new charges on the land itself are in the shape of local taxation, while the States or the Imperial Government, or both, tax the income of the farmer through income or capital taxes.

Consumption taxes, both customs and excises, are almost universally Imperial, the reason lying partly in the difficulty of tracing incidence and partly in the fact that the general control of inter-State trade is one of the most important of the Imperial functions. Though restriction of consumption is sometimes a State affair, at any rate in the first instance, India differs from most of the world in making restrictive excises a source of State revenue.

The case of the income-tax presents many difficulties both because of the difference in its importance, the difference in the form that it takes and the changes that have taken place as a result of the War. Prior to the War the commonest line of division between Federal and State taxation was that between what was indirect and what was direct. The War compelled the Federal Governments in most cases to invade the domain of State taxation and equilibrium has not yet been restored. Roughly, it may be said that schedular taxes are appropriately Imperial and that there are advantages in the allotment of personal taxes to the State wherever the Federation can afford to dispense with them.

Taxes on transactions which are taken in the shape of stamp duties are generally, to some extent at least, Imperial, because they commonly relate to matters of trade and consequently fall under the provisions of the constitution which provide for uniformity in matters

affecting inter State trade, in so far as it is concerned with stamps on business transactions Taxes on other transactions are commonly levied and taken by the States

Fees, being of the nature of payments for services rendered, are commonly credited to the governing body which renders the services, which is in the majority of the cases the State

Death duties are, like the income tax, sometimes Imperial, sometimes State, and sometimes both, but the best opinion advocates uniform administration and a division of the proceeds with reference to considerations of domicile and situation of the property

Local taxes of course go to the localities Two points of importance may be noted in connection with them, however, namely, first, that no local self governing body is allowed, through its taxation measures, to interfere with the function of the Imperial Government of protecting inter State trade, and second, that in some States one governing body is not allowed to tax the institutions of employees of another

509 Just as there is no ideal system of division of sources of taxation between Imperial and State Governments, so there is, as far as the Committee are aware, no State in which the allotment of taxing powers arrived at as a result of historical and other factors has been found to be satisfactory without further adjustments, which are made generally in one of three ways namely, by subsidies, by a further division of the sources of taxation, or by a division of the proceeds of actual taxes themselves The means of adjusting inequalities

510 Subsidies may be either by the subordinate Government to the superior or *vice versa* The first course amounts to the levying of a tribute and is to be condemned for obvious reasons Subsidies from the superior governing body to the inferior are likewise objectionable, but in practice many countries have found it impossible to avoid them The difficulty is to determine a satisfactory basis for the calculation A distribution in proportion to revenue is calculated to benefit those who need it least, a distribution in proportion to expenditure is calculated to encourage extravagance The basis that has been most commonly adopted is distribution in proportion to population, which is the basis of the matricular contributions in Germany and of the arrangements Subsidies

made in Canada, Australia and South Africa. In no case have they been fully satisfactory. The whole case is summed up by Professor Seligman as follows :—

> "To have the federal government depend entirely upon largesses from the states is to render it more or less impotent, and certainly to make it subordinate to the states. . . . On the other hand, to make the separate states depend financially upon the federal government is to weight the balance in the opposite direction and is not, in the long run, desirable in the interests of a complete equilibrium."*

Separation of sources.

511. A system of separation of sources is decidedly the best, if a scheme can be discovered under which the allotment of certain sources to the Imperial and certain others to the State Governments gives each a revenue adequate to its needs and at the same time effects a fair division between the different States. The *difficulty of this system* is that, where the revenue mainly depends upon two or three large taxes, which have to be divided between Imperial and State Governments, it is extremely difficult to select taxes to supply the State Governments' shares which will give all of them the shares to which they are entitled.

Division of the proceeds of taxes.

512. There remains the system of the division of the proceeds of particular classes of taxation. This may be effected in a variety of ways, of which the three following are the chief :—

(1) The proceeds may be divided arbitrarily into fractions;

(2) both Governments may impose their own taxation, either separately or through the same agency;

(3) the tax may be divided on a principle similar to that applied in the division of sources.

The first plan is the old Indian plan of divided heads and has the defects of a subsidy with others added. The subsidy fails if the particular source dries up. The divided authority and interest is an infringement of autonomy and makes for bad administration.

The plan of double taxation on different assessments as in the case of the Federal and State income-taxes in

* Seligman : Essays in Taxation, pages 666–667.

America and Australia has obvious disadvantages, and it has been sufficiently condemned in the report of the Royal Commission on Taxation in Australia

The plan of levying a comparatively small *centime additionnel* for the benefit of the inferior governing body is not open to the same objections and is suitable in the case of local taxation but would not be appropriate as between the State and the Imperial Governments since it would be useless unless the contribution were a substantial amount and if it were so conflict of interests might easily arise if both Governments wished to make a considerable enhancement in their shares

There is less objection to another variant of this plan which consists in the imposition of a single tax by the Government whether Imperial or State which assesses and levies it out of which a basic rate is allotted to the other Government concerned Under this plan so long as conditions are normal the Government mainly concerned can vary its income without interfering with that of the other It will be obvious however that if for instance in the case of a consumption tax the total rate is increased to a point which diminishes consumption the Government which receives the basic rate may lose although the total return is increased

An instance of dividing a tax into spheres would be the allotment of the excise duty on one class of intoxicants to one Government while that on another class of intoxicants levied under the same law by the same staff was allotted to another There is a similarity to this in a proposal that has sometimes been made for allotting to different Governments the excise duty on intoxicants and the fees for vend These are really different taxes but the common practice in India of selling the right of vend by auction tends to confuse it with the duty A similar but more marked distinction exists between the corporation profits taxes and schedular taxes on companies which are taxes *in rem* and the income tax which falls directly on the shareholders It seems desirable to call attention to it in view of the common practice in India of regarding super tax on companies as part of the income tax and fees for vend as part of the excise

513 Before attempting to apply these principles to the conditions of India it is desirable to glance briefly at the development of the Indian system of division The history of the financial settlements between the Imperial

The history of the Indian system of division—the pre Reform era

Government and the provinces divides itself into five periods, each bringing the Government of India nearer to the recognition of the fact that a province is entitled to spend the revenues which its Government levies. In the first period, prior to 1871, both revenue and expenditure were completely centralised. The Local Government could not keep any part of its collections and it could not undertake any expenditure without specific sanction. In the second period, from 1871 to 1882, certain limited allotments were given for expenditure on certain specified services. In the third period, from 1882 to 1904, the provinces were given a share in certain growing heads of revenue, but the object seems to have been mainly to stimulate their interest in collections. The Government of India still repudiated the idea that provincial expenditure had any relation to provincial revenues, and actually resumed at the close of each quinquennial settlement the balances accumulated by the provinces. In 1904 commenced a new period known as the period of quasi-permanent settlements, in which the principle of equality was first recognised. It was laid down, in the words of the Decentralization Commission, that "so far as possible the same share of the chief sources of revenue should be given to each province to ensure a reasonable equality of treatment". This principle, however, was not carried into practice in the settlements made in the years 1904 and 1905, under which, for instance, one province received one-half of the revenues under the heads Land Revenue, Stamps, Excise, Income-tax and Forests, while another received one-half of Stamps and one-fourth of the other four. This inequality was rectified in 1908, when a half share of all the five heads was given to both provinces. In 1911 began what was known as the permanent settlement. The intention of the Government of India in adopting this change was on the one hand to give more elasticity to the settlements and more freedom to Local Governments in working them, and, on the other hand, to protect the general tax-payer of India against possible mismanagement in any particular province, and to put an end to the frequent and undesirable controversies over the adequacy of the existing settlements. The Government of India retained the option of distributing among the provinces special grants, both recurring and non-recurring, out of India's surplus revenues. The percentage of each head of revenue allotted to the provinces was not, however, uniform. For instance, while

four provinces received the whole of the excise, less a fixed assignment equal to one-half of the revenue accruing at the time of the settlement, a fifth was allowed only one-half of the revenue from that source.

514. The option retained by the Government of India to distribute surplus grants developed into an undesirable system of doles, and considerable inequalities of burden resulted. It was left to the framers of the Reforms Report to refer to the inequality in the following terms.— The proposal in the Reforms Report.

"We attach great weight to the proposition that, if the provinces are to be really self-governing, they ought to adjust their expenditure—including therein their obligations to the common interests of India —according to their resources, and not to draw indefinitely on more enterprising neighbours."*

They further observed: "The present settlements by which the Indian and Provincial Governments share the proceeds of certain heads of revenues are based primarily on the estimated needs of the provinces, and the Government of India disposes of the surplus. This system necessarily involves control and interference by the Indian Government in provincial matters. An arrangement, which has on the whole worked successfully between two official Governments, would be quite impossible between a popular and an official Government. Our first aim has therefore been to find some means of entirely separating the resources of the Central and Provincial Governments."† They accordingly suggested a scheme of separation of sources which, it was assumed, would be fair to the Government of India and to the provinces alike, but proposed as an intermediate measure a system of contributions by the provinces to make good the initial deficit in which the scheme of separation involved the Imperial Government. The division originally proposed was as follows:—

Imperial—

Customs.

Income-tax.

Non-judicial stamps.

Excise on cotton goods and petroleum.

* Report on Indian Constitutional Reforms, 1918, paragraph 207.
† " " 200.

Provincial—

Land Revenue and Irrigation.

Excises on liquors and drugs.

Judicial stamps.

Death duties, if imposed.

The Financial Relations Committee.

515. The scheme was referred for detailed examination to the Financial Relations Committee presided over by Lord Meston, which was requested to advise the Government of India on the regulation of the contributions and the means or devices for their ultimate extinction. The Committee was also specifically directed to report on the claim of the Bombay Government to receive a share of the income-tax. The Financial Relations Committee recommended that non-judicial stamps should be made a provincial source of revenue instead of an Imperial one, as suggested in the report on Constitutional Reforms. They recognised as valid the reasons given in the report for making income-tax an Imperial subject, and therefore recommended no division of that head, though they expressed a doubt whether it would be possible permanently to exclude Local Governments from some form of direct taxation upon the industrial and commercial earnings of their people. They propounded an elaborate scheme whereby the contributions by the provinces to the Government of India should commence at figures which had regard to the increase in the spending power resulting from the separation of sources and should be reduced or increased over a term of seven years to figures which were based on an estimate of the taxable capacity of the provinces.

The Joint Select Committee.

516. The last of these proposals was rejected by the Joint Select Committee of Lords and Commons in favour of a direction that the contributions should be entirely abolished as soon as the Government of India could afford to dispense with them.

Devolution Rule 15.

517. As a partial departure from the scheme of division of sources, the Joint Committee further recommended "that there should be granted to all provinces some share in the growth of revenue from taxation on incomes, so far that growth is attributable to an increase in the amount of income assessed."* The manner in which this share was

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* Report of the Joint Select Committee on Draft Rules made under the Government of India Act—Rules 14 to 18.

to be assessed was indicated in Devolution Rule 15, which in its original form allotted to each province 3 pies on each rupee under assessment under the Income-tax Act of 1918 In consideration of this allocation, each Local Government was to assign to the Central Government a fixed annual sum to be determined by the latter as the equivalent of the amount which would have accrued to the Local Government in the year 1920-21, had the pie rate been applied in that year The rule also indicated the proportions in which the cost of special income tax establishments employed within a province were to be borne by the Provincial Government and the Central Government, respectively The rule has subsequently undergone several changes, the first of which was intended to avoid making a province pay more than it received, and the inconveniences of dividing the cost of establishment between the Imperial and Provincial budgets The rule as finally amended runs as follows —

> "Whenever the assessed income of any year subsequent to the year 1920 21 exceeds in any Governor s province or in the province of Burma the assessed income of the year 1920 21, there shall be allocated to the Local Government of that province an amount calculated at the rate of 3 pies in each rupee of the amount of such excess "

The manner in which it has operated will be referred to later

518 In examining the question of the theoretically best method of division, the Committee consider that it will be best in the first place to examine the taxes with a view to determining, in the case of India, what are the balancing factors available When these have been decided, it will be possible to say which of them it will be appropriate to use in order to arrive at a division which will be generally fair as between the Government of India and the provinces and as between the provinces themselves Since it is fairly clear that the main balancing factor will be the income-tax and that, if any division of taxes is to be made at all, a division of the income-tax will be inevitable, it is proposed to examine the other taxes first, leaving the income tax to the last (The theoretically best method of division)

519 It must be stated at the outset that the Committee base their proposals on an assumption, which underlies the proposals of the Reforms Report as well as the practice of (An underlying assumption)

the Federations, namely, that the intention is to treat all Provinces alike. It may be desirable in the case of an exceptional calamity that the Government of India should be in a position to give special subsidies to particular provinces, but it seems to be a fundamental proposition in respect of such a division of proceeds as is now contemplated that it should not give cover to a disguised subsidy, but should endeavour to arrive at an equality of treatment so far as possible.

The taxes examined in detail—Local taxes omitted.

520. It may be added that it is not proposed to include Local Taxation in the examination. This is mainly of the nature of payment for services rendered in particular localities to the inhabitants, and if the inhabitants of particular places choose to tax themselves in order to secure amenities, that is not a matter which should be taken into consideration in an account as between different provinces. Similarly, it is not proposed to include in the account Capitation and Apportioned taxes. These again are payments for services rendered, and in the provinces where they are not levied by the Government, the villagers in some cases impose taxation upon themselves. Moreover, it has been proposed that these taxes should be converted into local taxes.

Land Revenue.

521. Land revenue, as has been seen, is administered on different lines in different provinces and there is no province of which it is possible to say what is the rate imposed. Moreover, the staff that administers it is concerned with numerous other activities of the Government and it would be impossible to place it under Imperial control. On these grounds it seems that land revenue must continue an item of provincial revenues.

The charge for water partakes to some extent of the characteristics of land revenue. From another point of view it is a charge for services rendered and the provinces are responsible for capital cost and maintenance. It is clear that they are entitled to retain the proceeds.

Taxes on consumption—Customs duties.

522. The next category of taxes are the taxes on consumption, that is to say, customs and excise duties. It has been pointed out that customs duties on imports have been set apart in all countries as a source of Imperial taxation, since it is the duty of the Imperial Government to regulate inter-State trade and because the incidence of these taxes is not traceable. This is a principle from which India cannot claim exemption. The case of customs duties on exports is somewhat different. In some cases

it is possible to trace the origin of the exported goods, and it has been urged, for instance, in the case of tea, that if there were no export duty, the trade would be quite ready to bear an equivalent burden in the shape of State or local taxation, provided they were assured that the money would be spent for the benefit of the locality. Another suggestion that has been made is that the province of origin should be given a share of the tax calculated with reference to the expenditure to which it is put by the industry in question. As regards this, it has been urged with some force that it is undesirable for both Imperial and Provincial Governments to be interested in a tax of the nature of an export duty since such an interest renders it doubly difficult for the trade concerned to secure amelioration when it is due. On the whole, it may be said that export duties provide a possible balancing factor, but one to be employed only in the last resort.

523. In the case of excises for revenue, it is generally difficult to trace consumption. Moreover, they should in many cases be regulated with reference to customs duties. It is therefore desirable that they should be Imperial. The proposed taxes on tobacco would be a partial exception. The excise suggested in the case of cigars, cigarettes and pipe tobacco made up after the European fashion would follow the usual rule, but the indirect excise on country tobacco, which it has been proposed should be taken through a monopoly of vend, could only be provincial. In the case of restrictive excises, the considerations applicable to excises for revenue apply where special limitations on transport are not imposed, and it has been suggested that it would be desirable, for the purpose of getting rid of unnecessary competition, to transfer to the Government of India the excise duty on locally-made 'foreign' liquors. In the case of other restrictive excises, as has been pointed out, India differs from many Western countries in making excise duties provincial. There are facilities here for the imposing of something in the shape of a basic rate, and in the case of opium it would seem desirable that the whole of the revenue should be transferred to the Imperial Government. The manufacture of this drug is already under the control of that Government, and recommendations have been made for the introduction of Imperial control over inter-provincial smuggling and of a uniform high rate of duty and the abolition of the system of sale of shops by auction. The international obligations that have been undertaken are likely to involve sooner or later Imperial intervention in matters of consumption. Excises

It would be appropriate in these circumstances that revenue should follow control, though the direct management of the arrangements for retail vend might continue in the hands of Local Governments.

Taxes on transactions.

524. Taxes on transactions in other countries depend largely on the extent and importance of the separate States and the extent to which they have adopted their own stamps, postal and other, or use a system of embossing stamps instead of that of stamp papers. In India it is not only highly inconvenient to have varying rates of duty, but also, so long as uniform stamps are maintained for the whole country, it is not equitable to continue the system of division of sources in the case of stamp duties. For both reasons it is very desirable that the stamp duties should be retransferred to the Imperial Government.

Other taxes on transactions should continue to go to the provinces.

Fees.

525. Fees, as has been seen, are payments for services rendered, and therefore should go to the Government which renders the services, which is in almost all cases the Provincial Government.

Probate duties.

526. Probate duties now go to Provincial Governments. The question of the division of the corresponding duties in other countries is one which has caused almost as much difficulty in some of them as that of the income-tax. On the whole, it appears to the Committee that, so long as all that is taken is a probate duty on a very moderate scale, the present system of crediting it to the Provincial Government should be continued. But the question would need further consideration if a high progressive duty on the lines adopted in Europe were to be imposed. In any case, the probate duty affords a possible balancing factor if one is needed.

Summary.

527. To sum up: it will be seen that, of the taxes so far examined, import duties and revenue excises are necessarily Imperial, land revenue and irrigation and fees, which include judicial stamps, are necessarily Provincial; that, in the Committee's opinion, non-judicial stamps, and the excise on country-made 'foreign' liquors ought to be transferred from Provincial to Imperial, and that the whole of the revenue from opium might well be transferred similarly; and that other possible balancing factors are afforded by the export duties, the other restrictive excises and the probate duty, but that the Committee do not regard the use of these as desirable if it can be avoided.

The division of the income tax

528 It remains to examine the case of the income tax and to see how far it is possible to devise a satisfactory method of using that for the purpose of obtaining equilibrium In the case of this tax it is necessary to note in the first place that it is not a tax, as it is in other countries on the whole population with incomes above the exemption limit A large proportion of the incomes namely, those that are derived from agriculture, are exempt from it and it consequently falls mainly upon a limited number of persons who are resident in cities In the next place the income from land in spite of the recent changes in the taxation system still provides a larger proportion of the total taxation than in other countries and it has been seen that this is an item of revenue which must be credited to the provinces Consequently it is clear that as between these two taxes where the one is credited in full to the Government of India and the other to the provinces the provinces *in which industries* predominate are likely to suffer Considerations of this kind no doubt led to the expression by the Financial Relations Committee of a doubt whether it would be possible permanently to exclude Local Governments from some sort of direct taxation upon industrial and commercial earnings and to the formulation under the instructions of the Joint Select Committee of the Devolution Rule under which an attempt was made to give some share of the income tax to the provinces

The revision of Devolution Rule 15 may be discussed as part of the general question

529 This being the case it will be convenient before proceeding to the general question of division of the income tax, to deal with the operation of Devolution Rule 15, which the Committee have been specifically asked to examine The actual working of the rule is best illustrated by the following table of the amounts realised by provinces as their share of the income tax —

(In thousands of rupees)

—	1921 22	1922 23	1923 24	1924 25 (Revised)	1925 26 (Budget)
Madras	4 08		10 82	2 00	2 00
Bombay	14 72	3 00			
Bengal	95				
United Provinces	3 20	33	*		**
Punjab	30	0,69	4 24	4 51	4 94
Burma	3 85		38	4 29	8 28
Bihar and Orissa	58	2 87	2 55	4 35	4 68
Central Provinces	90	1,49	3 42	82	
Assam	2	1 15	4 16	5 29	5 40
Total	28 60	14 53	25 57	21 26	25 50

It is clear from this statement that, if the purpose of this rule was to secure to the larger *industrial* provinces a share in the growing revenue from taxation of incomes, it has failed in its object. It is obvious that the effect of the rule is to give bonuses to individual provinces on a haphazard basis, while leaving the Government of India to bear all losses. The only means of amending the rule that have been suggested are the adoption of a different datum line. The Committee have examined this suggestion, but are unable to support it, primarily because they consider that the whole system of dividing the income-tax on the basis of a datum line is unsound. The income-tax in the commercial provinces depends largely on the main industries, in Bombay on cotton, in Bengal on jute, in Assam on tea and in Bihar and Orissa on coal and minerals. The periods of prosperity and depression of these do not necessarily synchronise, and any datum line common to all provinces would consequently give disproportionate results as between the industrial provinces themselves. The system has the further defect of giving a premium to provinces which had neglected their income-tax assessment before the introduction of the new centralised income-tax department. Moreover, it must be remembered that Devolution Rule 15 is part of a settlement of which the contributions are another part, and that both depend upon figures of revenue and expenditure on particular dates. If therefore it is proposed to alter the one, it would be necessary to reconsider the other at the same time. On the whole, it seems to the Committee that it is best to reconsider Devolution Rule 15 as part of the question of the redistribution of the income-tax.

The methods of division available.

530. There are several possible ways of dividing the income-tax, of which the following are the chief :—

(1) The provinces might be empowered to levy and administer an income-tax separate and distinct from that levied by the Government of India.

(2) The income-tax might continue to be levied by the Government of India, which might at the same time levy *centimes additionnels* for the benefit of the provinces.

(3) The income-tax might continue to be levied by the Government of India, but a definite proportion of the yield might be allocated to the various provinces on principles to be determined.

531 The first method obtains in various Federal States, e g , Australia Canada and the United States The existence of two taxing authorities operating within the same sphere has given rise to serious difficulties in all these States and has been the cause of considerable irritation on the part of tax payers, the necessity of making separate returns to two different authorities and of understanding the provisions of two different taxing schemes combine to render the system intolerable The question was dealt with at length by the Australian Royal Commission on Taxation appointed in 1920, and while unanimity as to the provision of a remedy was not attained, both the majority and minority reports agreed in condemning the existing system Certainly, no scheme on these lines can be recommended for India

Separate taxes

532 The second method obtains as between State and Local Taxation in France, Belgium and various other European States There, however, the *centime additionnel* is levied on what is known as the *impôt cédulaire*, which is a tax at a flat rate on specific sources of income To endeavour to graft the *centime additionnel* on to the Indian income tax system would mean that, as respects some incomes, the proceeds of the tax would go entirely to the province of origin It is a system which can only be employed successfully where the income taxation machinery is directed to taxing either by reference to the source or by reference to the destination of the income, and not where a combination of both methods is adopted Moreover, if Provincial Governments were to be empowered to determine the rates of surcharge on the Imperial income-tax, an inevitable result would be variations in the rates in different provinces, which are to be deprecated in the interests of commerce and industry

Centimes additionnels

533 The third method appears to provide the most appropriate solution It gives no additional trouble either to the assessing authority or to the tax payer, neither of whom is concerned in the matter, and it permits of variation in the respective shares of the Central and Provincial Governments without any dislocation of the machinery of assessment and collection The difficulty is to find a satisfactory basis on which the allocation between the several provinces of the total share allotted to them is to be effected

Assignment to the provinces of a share of the tax

The Indian income-tax and super-tax (excluding the super-tax on companies) is, like the British income-tax and super-tax, charged on a double basis It is charged on all income received in British India from whatever

source it may be derived, and it is charged on all income arising or accruing in British India, whatever may be its destination.

In India, as in the United Kingdom, a large proportion of the yield of the income-tax is realised by the method known as 'collection at the source'. Under this system, the income-tax in respect of certain species of profits and interest is collected at the point where such profits or interest emerge. For instance, a limited company is required to pay income-tax at the maximum rate on the whole of the profits it makes without regard to their ultimate destination, and the burden of the tax is passed on to the shareholder in the shape of a reduced dividend. Similarly, the payer of interest on securities is required to deduct and pay over to the Revenue income-tax at the maximum rate on such interest. A similar provision exists in India with regard to salaries, subject to the unimportant difference that the rate at which tax is deducted is that appropriate to the estimated total income of the recipient.

Where tax has been charged at the source at the maximum rate and the total income of the recipient is such as to entitle him to a lower rate, provision is made for a refund based on the difference between the two rates. Accordingly, all profits from trade, etc., are ultimately taxed as part of, and at the rate appropriate to, the total income of the individual to whom they belong. The sole exception to this rule is in the case of such portion of the profits of a limited company as are not distributed, but are placed to reserve. Here there is no single person to whom such profits can be said to belong, and they accordingly remain burdened with the tax at the maximum rate charged on the general profits of the company.

The attribution of income to places of domicile and origin.

534. It follows from what has been stated above that, in a number of cases, tax will be charged in a province in which a company carries on its business, but actually be borne by a person resident in some other province, and the question then arises in what proportion the income-tax is to be allotted as between the province in which the income arises, and in which the tax is collected in the first instance, and the province in which the recipient of the income who ultimately bears the burden of the tax resides.

The problem is not dissimilar in its main aspects from that involved in devising means for the avoidance of

double income-tax as between two sovereign States Both problems arise from the same cause, viz , the existence of a double basis of liability, residence and origin, and if the relative weight to be attached to these two factors could be agreed upon, a theoretical solution of both problems would be easy

The problem has attracted considerable attention lately in Europe and in the United States, and in 1921 the Financial Committee of the League of Nations appointed a panel consisting of Professors Bruins, Einaudi, Seligman and Sir Josiah Stamp to consider and report upon the matter

Their method of attacking the problem was to ascertain, as regards each category of wealth, where the economic allegiance lay in a preponderating degree, and they reached the following conclusions —

	Category of wealth	Preponderant element — Origin	Domicile
I.	Land	x	..
II-*a*.	Mines, oil-wells, etc ..	x	..
II-*b*	Commercial establishments ..	x	
III-*a*	Agricultural implements, machinery, flocks and herds	x	..
III *b*	Money, jewellery, furniture, etc	.	x
IV	Vessels	Ax	..
V-*a*	Mortgages	Bx	Cx
V-*b*.	Corporate shares	..	x
V-*c*	Corporate bonds . ..	.	x
V-*d*	Public securities	..	x
V-*e*	General credits	..	x
VI	[illegible] ..	..	x

A [illegible]
B [illegible] ty is in question
C When the taxation of income is in question.

They made no attempt to make an exact apportionment of the economic allegiance as regards each category of wealth and their views on this point are expressed in the following terms "To allocate the exact proportion of economic allegiance to origin or domicile in each particular category is well-nigh impossible Such an attempt would savour too much of the arbitrary"

535 In fact, owing to the practical difficulty involved in the distribution of the income-tax between the country of origin and the country of domicile, the four economists came to the conclusion that "on the subject of income taxation in its developed form, the reciprocal exemption

Reciprocal exemption of the non-resident, the most practical method

of the non-resident is the most desirable practical method of avoiding the evils of double taxation and should be adopted wherever countries feel in a position to do so."

The Committee's proposals—to give the provinces a basic rate on personal incomes.

536. The Committee have made several attempts to devise a scheme based on the classification referred to above, but they have found it impossible to apply these principles to the peculiar conditions of India and they have come to the conclusion that the only feasible method is to base the distribution primarily on the principle of domicile, which underlies the final conclusion of the four economists.

What they would propose is to give the provinces the proceeds of a basic rate on personal incomes graduated proportionally to the general rate. For this purpose, the basis of calculation would be the personal returns submitted under section 22 (2) of the Indian Income-tax Act, which provides for a statement of the income derived by the assessee from all sources, including dividends from companies wherever situated.

The whole of the collections on incomes that do not appertain to residents in particular provinces, such as the tax on undistributed dividends of companies or on incomes of persons resident abroad or residents in places outside the boundaries of the provinces to which the allotment was made, and the whole of the super-tax, would go to the Government of India.

Coupled with a small share of the corporation profits tax.

537. In addition to the allotment made on personal incomes, the allocation of which is based entirely on domicile, the Committee would recommend the giving of a partial recognition to the principle of origin by assigning to each province a small portion of the receipts of the corporation profits tax, following in this respect the example of Germany. The Committee recognise that there would be difficulties in allocating the income of companies having their head offices in one province and their branches and enterprises in others. For this reason, they recommend that the share should be kept small. Subject to that consideration, they would contemplate distribution on the basis of the collections of each province, subject to arbitrary adjustments similar to those agreed upon for the purpose of the distribution under Devolution Rule 15, in cases where profits wholly assessed in one province originate in more than one.

The advantages of this scheme.

538. The Committee make no claim that this scheme attains scientific accuracy. The advantages they see in it are that it is easily comprehensible, bearing its merits and

demerits on its face, that it can be applied directly by the use of returns already in use and that it gives as much recognition to the principles laid down by the economists as is possible in the conditions obtaining in India

539 The Committee are specifically instructed that it is no part of their function to revise the Meston Settlement, and they presume that, supposing their recommendations as regards the balancing factors to be employed are accepted, the duty of applying them to the actual conditions will be carried out by some other body It will be sufficient, therefore to indicate very briefly the manner in which they contemplate that the balancing factors they have indicated should be used in such a calculation

The method of applying it in conjunction with the other balancing factors

To take first the case of Devolution Rule 15 It will be clear that all that would be required would be for the Government of India to determine, with reference to the considerations which influenced the framing of the rule and to the sums which have actually been distributed under it the total sum they proposed to distribute to the provinces It would then be possible to arrange for the distribution of this sum by selecting suitable rates to be applied to the personal income tax and the corporation profits tax on companies respectively

The process to be adopted in the case of the general division would depend upon the view taken by the Government of India in regard to the use of the balancing factors named The Committee have recommended as possible balancing factors the export duties a basic rate on restrictive excises generally the whole of the excise on opium the whole of the excise on country made 'foreign' liquor and the whole of the revenue from general stamps Their recommendation is that the export duties and the basic rate on excises should not be made use of except in the case of real necessity They have recommended that the revenue from general stamps and the excise on country made 'foreign' liquors should be transferred to the Government of India on considerations other than their use as balancing factors, and have made a similar recommendation but on grounds that are not so strong, in the case of the revenue from opium The first point to be determined therefore appears to be which if any, of these three should be made over by the provinces to the Government of India As soon as that point had been determined all that would remain to be done would be to select basic rates for the income tax

and corporation profits tax which would give the provinces a share of these which would be equal to the revenues they now derive from the provincial heads the transfer of which is proposed.

These considerations are of course independent of any question of the revision of the contributions or of the influence that might be exercised upon the matter by the imposition of new taxation or the revision of taxation already in force.

PART II.—PROVINCIAL AND LOCAL.

The problem of division between Provincial and Local differs from that so far discussed.

540. The issues that are involved in the allocation of resources between the States and the local authorities are essentially different from those that have just been discussed. In all federal countries, the division of sovereign powers between the Federal Government and the component States is defined by statute, but there is no such clear division between the functions and powers of taxation of the State and the local authorities. Such control as is exercised by the Central Governments over the States is directed to ensure that in the exercise of their powers the States do not encroach on the federal sphere. In the case of the services that are administered by local authorities, however, the State is in most countries responsible, and consequently it is often compelled to prescribe standards of administration and to exercise control over the local bodies in order to ensure adherence to the prescribed standards. This control generally involves financial assistance. In India such control has been exercised to a greater extent than in most countries owing to the fact that local authorities have developed to their present state by a gradual process of devolution of powers, and though these bodies now enjoy far more independence than before, the Provincial Governments are still responsible under the Government of India Act for the services conducted by them.

The development of the English system of division.

541. Subject to these general considerations, the actual division of taxing powers and funds has varied very largely as a matter of history. In England, before 1832, local authorities were more or less autonomous institutions which had no connection with the Central Government, and the administration of all the services was almost entirely in their hands. Between 1832 and 1888, the Central Government, mainly by a judicious use of the grant-in-aid as an instrument of control, "bought the rights of inspection, supervision, initiative, criticism and

control in respect of one local service after another and of one kind of local governing body after another." * Lord Goschen's reforms of 1888 marked a departure from the policy underlying the institution of grants in aid and the introduction of the policy of assigning definite sources of revenue for local purposes. The system of assigned revenues, however, was practically abandoned in 1910, when the amounts to be granted to local authorities on account of the assigned revenues were stereotyped. The whole question of subsidies was examined at great length by a Departmental Committee appointed in 1912, and as a result of their recommendations, there has been a partial revival of the old system of percentage grants in the case of the police. As a consequence, at the present time the income of local authorities in England is principally derived from the local rate and from subsidies from the Central Government which consist partly of a fixed allotment out of the proceeds of certain taxes and partly of amounts granted for specific services such as education and police. The following figures taken from Sidney Webb's "Grants in aid" illustrate the development of the amounts of State subsidies since 1832 :—

1840	Less than half a million
1850	Three fourths of a million
1860	Over 1 million
1870	2 millions
1880 . ..	5 ,,
1890	12 ,,
1900	16 ,,
1911-12	30 ,,
1920-21	65 ,,

542. The developments in France have, owing to historical reasons, been on different lines, but as in England there is no complete separation of sources. The local authorities depend principally upon the octroi and surcharges on State taxes, but subsidies are largely employed as a balancing factor. The principles on which they are granted, however, are different from those in England. Their most important feature is that the Central Government undertake financial responsibility for certain classes of expenditure under each service. For instance, in the case of education, the Central Government pay the salaries of teachers, while the *departements* bear the cost of dwellings for inspectors and of equipment, and the *communes* undertake responsibility for the maintenance of buildings and for the housing of the

The arrangements in other European countries

* Sidney Webb Grants in aid page 6

elementary school teachers. Conditions vary in the other European countries, but it may be stated that, generally speaking, there is no complete separation of sources of revenue or even of functions, and that the resources of local bodies are in most cases supplemented by subsidies from the States, which have become necessary partly because certain services of national importance are under the administration of local authorities, and partly because of the difficulty of devising an equitable system of local taxation on the principle of ability to pay.

The recommendations for India of the Decentralisation Commission.

543. In the chapter on Local Taxation, the Committee have commented on an outstanding feature of the financial position of local bodies in India, viz., the inadequate state of their resources. The nature of the changes introduced in the financial relations between local authorities and the Provincial Governments by Lord Mayo and Lord Ripon have also been described in some detail in the same chapter. The next important landmark in the development of the system of local finance was the report of the Decentralisation Commission whose recommendations are summarised below:—

(1) In the case of panchayats, the constitution and development of which the Commission strongly urged, it was recommended that a portion of the land cess levied for local board purposes in the village should be credited to the panchayats, which were also to take the receipts from village pounds and markets entrusted to their management.

(2) In the case of rural boards, financial relief and addition to the resources were suggested—

(a) by the allotment to them or to the panchayats under them of the whole of the land cess;

(b) by the increase of the rateable grant of 25 per cent of the land cess assigned by the Central Government in 1905;

(c) by relieving them of responsibility for the maintenance of trunk roads, famine and plague relief, local veterinary work and the charges incurred by the boards in regard to police and registration of births and deaths;

(d) by relieving them of any contributions in respect of services rendered to them by Government officers in the course of their duties.

In the case of poor districts special grants were to be made in lump sums or as percentages of expenditure incurred on specific services, and these were to be fixed under a quasi-permanent settlement

544 As a result of the recommendations of the Decentralisation Commission and the introduction of the Reforms, local authorities have now acquired considerable financial freedom, but so far as the nature of the taxes imposed are concerned, there has not been any material change, except that the taxes which may be levied without the sanction of the Government of India have now been clearly specified in the Scheduled Taxes Rules They are— The taxes assigned to local bodies

(1) a toll,
(2) a tax on land or land values,
(3) a tax on buildings,
(4) a tax on vehicles or boats,
(5) a tax on animals,
(6) a tax on menials and domestic servants,
(7) an octroi,
(8) a terminal tax on goods imported into or exported from, a local area, save where such tax is first imposed in a local area in which an octroi was not levied on or before the 6th July 1917,
(9) a tax on trades, professions and callings,
(10) a tax on private markets, and
(11) a tax imposed in return for services rendered, such as—
    (a) a water-rate,
    (b) a lighting rate,
    (c) a scavenging, sanitary or sewage rate,
    (d) a drainage tax,
    (e) fees for the use of markets and other public conveniences

545 Owing to the variations in the functions performed, the standard of services rendered, the taxes levied, and the amounts and nature of the subsidies given, it is very difficult to secure any reliable figures to illustrate the comparative position in this matter While it is far from satisfactory, the best basis of comparison the Committee have been able to devise is the percentage borne by provincial grants to the total expenditure on Education, The proportion of their expenditure met out of these taxes by local boards.

Medical Relief and Civil Works, for district boards only. The following are the figures for typical years:—

	1904-05.	1913-14.	1922-23.
Madras	* 27	52	43
Bombay	82	44	67
Bengal	15	28	27
Bihar and Orissa ..	..	† 19	20
Assam	‡ 22	66	42
Punjab	0·2	47	40
United Provinces ..	7	74	33
Central Provinces ..	22	42	62

The Committee's recommendations for increasing their resources.

546. The figures are somewhat remarkable, especially in Bengal, where the cesses are higher than elsewhere, and Bombay, where a very large proportion of the expenditure on education is borne by the State. Such conditions enforce the lesson that, in any comparison of incidence, it is essential to make allowance, if not for local taxation, at least for the sums of provincial money that are expended in relief of it. The Committee have suggested in the previous chapters several means of increasing the resources of local bodies, in many cases at the expense of provincial revenues.

Assignment of revenues.

547. The plan of assignment of a share of State taxation is not one that can be recommended in normal circumstances. The Committee have, however, recommended its adoption in two special cases. In the first of these, what they have proposed is the assignment of a share of the Government revenue from non-agricultural land in towns collected under the ground-rent rules or some similar plan. The reasons for this recommendation are that the land is better managed by the Government agency, but that at the same time the local authorities are entitled to a share in the revenue produced on the ground that they provide the services which help to create the value. The second case is that of taxes on entertainments and betting. In this case, the Committee have recommended that the taxes should be imposed and administered by the Provincial Government, in order, among other reasons, to prevent their being used as a means of class taxation. At the same time, inasmuch as entertainments involve expenditure on local bodies, they have thought it right to recommend that the latter should

* This is based on the figures for 1905-06, those for 1904-05 not being available.
† This is based on the figures for 1914-15, those for 1913-14 not being available.
‡ Includes Eastern Bengal.

take a share in the proceeds. Another set of taxes in respect of which recommendations have frequently been made, either for the assignment of a portion of the revenue or for the transfer of a portion of the taxing power, are those imposed upon intoxicants. In these cases the Committee are unable to recommend any assignment of a portion of the tax. Under normal conditions it might be advisable to transfer a portion of taxing power. But in view of the policy that is being pursued of reduction of liquor shops and ultimate prohibition it does not seem appropriate to consider any such plan at the present juncture.

548. Under taxes on property it has been proposed— **Expansion of taxing powers.**

(a) that the land revenue on agricultural land should be standardised at a comparatively low rate so that local bodies may be enabled to increase the rates;

(b) that a substantial portion of the land revenue collected in towns should be made over to the municipalities, which have also ample scope for increasing the property tax and under suitable conditions for imposing taxation on unearned increments.

In the case of taxes on trade, the chief recommendation that has been made is in the opposite direction, namely, that steps should be taken to prevent local taxes on trade from operating to interfere with the interests which the Imperial Government are bound to protect. At the same time, it has been proposed that the local bodies should be given power to levy a tax on retail sales, which in several countries is a State source of revenue, and one on advertisements. It has also been recommended that the Imperial taxation on motor vehicles should be reduced and a Provincial tax imposed on them for distribution to local bodies through road boards, the local bodies being thus enabled to abolish the tolls on such vehicles.

In connection with the taxes on persons, while in England the State taxes incomes above the subsistence limit, in India the whole field of taxation up to Rs. 2,000 is left to local bodies; it has further been suggested that assistance should be given to them in the assessment of the profession tax by the income-tax and by the general administrative staff; and the present policy is for the capitation and apportioned taxes to be made over to them.

Another new tax that has been suggested is a fee for the registration of marriages in selected localities.

Some cases in which local bodies are encroaching on the Imperial or Provincial sphere.

549. On the other hand, there seem to be certain cases in which local bodies have encroached on the Imperial and Provincial spheres. The Committee have already referred to the wide powers given to district councils by the Central Provinces Local Self-Government Act of 1920 under which they can impose "any tax, toll or rate other than those specified in sections 24, 48, 49, and 50 of the Act." A cess of half an anna on every ton of coal exported has already been imposed by one Council, while another has announced its intention of levying a cess on manganese ore exported from the district. In the case of the octroi and terminal taxes generally there is perceptible a danger of interference with railway rates, and in a few cases with customs and excise duties. Similar difficulties may arise in future in Madras out of the very wide discretion allowed to village panchayats as regards taxation, the result of which has been the introduction of almost every kind of tax, including surcharges on the liquor sold in the village liquor shop, export and import duties on articles despatched from or received in the village, taxes on income and other personal taxes. The Committee do not suggest that the powers already given should be withdrawn, but it seems to them that greater vigilance on the part of Provincial and Imperial Governments is needed in the matter of sanctioning taxation for local authorities.

The balance must be made up by subsidies. The English plan.

550. Even if all the recommendations enumerated above are given effect to, the resources of local authorities will still have to be supplemented by means of subsidies. The question of subsidies is closely connected with administrative control, since they are in a large number of cases used for purposes of enforcing efficiency. It is therefore difficult to consider the principles on which they should be granted as an isolated problem of finance, and the Committee are doubtful to what extent this question falls within their terms of reference. It may be useful, however, to consider briefly the principles recommended by the Departmental Committee on Local Taxation in England in 1912. This Committee classified the services administered by local authorities into two categories, namely, local and semi-national, and recommended that grants should be confined to semi-national services, including in that term education, poor law relief, police, main roads, public health, criminal prosecutions

and mental deficiency. As regards the form and the methods of distribution of the Government subventions, they stated that the main functions which such subventions were intended to fulfil were—

(1) to provide the nation's share of the cost of semi-national services;
(2) to correct inequalities in the local taxation system, both those existing between individuals and those existing between districts;
(3) to enable the Government effectively to supervise the administration of semi-national services.

Their principal recommendations were that the system of assigned revenues should be abolished and that State assistance to local authorities should take the form of direct grants proportionate to the expenditure.

The system of proportionate grants, which has been partially revived since 1918 has, however, been since condemned by the Geddes Committee as leading to extravagance on the part of local authorities.

The several methods adopted in India.

551. In India, State assistance to local authorities is given in a variety of ways—

(a) By the provincial administration of services or portions of services recognised as local.

Thus in some provinces roads, in others hospitals, in others schools are entirely maintained by Government agency out of Government funds.

(b) By grants which represent the cost of certain items of expenditure relating to particular services, such as salaries of officers.

In several provinces, a proportion of the salaries of health officers is paid by the Provincial Government, while in respect of education, the grant-in-aid rules provide for subsidies for specific items, such as buildings or equipment or salaries of teachers.

(c) By the Government making local bodies their agents for the conduct of particular services and meeting the cost.

Thus, a Government may undertake to pay for the maintenance of certain trunk roads up to a particular standard subject to the work being passed by its own officers.

(d) By block grants.

Grants in aid of general resources, as distinguished from grants for specific services, were common before the Reforms. These have been to a great extent discontinued, but some are still given to poor districts.

(e) By grants proportional to total expenditure.

This is the system in force in many provinces, particularly in respect of education and medical relief. In Bombay, 50 per cent of the expenditure by municipalities, and 66 per cent of that by district boards on compulsory elementary education is normally borne by the Government, while under the Madras Elementary Education Act, a provincial subsidy not less than the proceeds of the tax under the Act is obligatory.

In the case of capital works, such as water-supply and drainage schemes, it is a common practice for the Government to undertake to pay a definite fraction of the cost and to make a loan of the remainder subject to the local body's undertaking the maintenance of the work and the service of the loan.

The choice of methods is an administrative question, but *taxation can* only be adjusted to it if a continuous uniform plan is adopted.

552. The question which of these methods should be adopted in practice is a purely administrative one and appears to be outside the scope of the Committee's enquiry. It would, however, seem that, as recommended by the Royal Commission on Local Taxation in England, 1902, and the Departmental Committee of 1912, subsidies should ordinarily be restricted to services which are of national importance and that they should be granted on a system which will enable the Provincial Government effectively to enforce efficiency in respect of such services. A third essential is that they should be granted on some uniform and easily comprehensible plan so worked out in advance that the local body can arrange its programme of expenditure in good time and provide for a due adjustment between that, its expected receipts from provincial funds and its scheme of taxation.

CHAPTER XVII —THE MACHINERY OF TAXATION

553 The Committee are desired to advise as to the machinery required for the imposition, assessment and collection of taxes, old and new They are to indicate the most efficient machinery, whether or not it follows the same lines of division between Imperial, Provincial and Local as they are recommending in the case of the proceeds of taxation

Instructions to the Committee

554 In considering the lessons to be learnt from other countries in this matter, large allowances have to be made for considerations of history and of national psychology, and it is difficult to deal with questions of tax administration alone without trenching on the general field of administration and public service Perhaps the best course will be, instead of examining the systems of administration of taxes as a whole, to attempt to isolate certain tendencies and to illustrate them by examples

The experience of other countries—four main tendencies

The chief tendencies which the Committee observe in the tax administration of the leading countries of to day are—

(1) to divorce administration from politics,

(2) to entrust administration increasingly to experts;

(3) to centralise control, and

(4) to combine the staffs that deal with cognate subjects

555 In the matter of divorcing administration from politics, America has long been a standing example to the rest of the world by reason of its failures It is hardly possible to take up any study of taxation questions in the United States without this lesson being emphasised at every turn To take a single instance, the Cleveland Commission of 1895, referring to the administration of the general property tax, stated as follows —

The divorce of administration from politics.

> "The existing system is productive of the gravest injustice, under its sanction grievous wrongs are inflicted upon those least able to bear them, these laws are made the cover and excuse for the grossest oppression and injustice, above all and beyond all, they produce in the community a widespread demoralisation, they induce perjury, they invite concealment The present

system is a school of evasion and dishonesty. The attempt to enforce these laws is utterly idle.''*

The reasons for this general condemnation have been summarised by Professor Bastable in his 'Public Finance'. He says that the most important of them is lax administration, and remarks: ''Officials elected for short terms cannot be expected to scrutinise very closely the answers of their constituents. Palpably inadequate returns are accepted with little question, and the wealthiest get off best.''†

In France and Germany the tendency is to some extent in a contrary direction to that in America, where appointments depend on the politicians. The danger in France, which has a bureaucracy of the strictest kind with an enormous force of *fonctionnaires*, is of the politicians becoming dependent on the bureaucracy, so much so that a deputation of English Civil Servants who went to study the methods of the French bureaucracy reported that the varied powers exercised by them are "so wide that effective combination would enable them to dictate the policy of the Government, or to place in power any party favourable to themselves".‡ In England, these tendencies are less in evidence. Nevertheless, there is no other point on which Sir Josiah Stamp lays so great an emphasis. "My experience shows," he says "that good administrative work cannot be done by a staff which is immediately dependent on the electorate and its representatives. It is of the first importance that the staff of a fiscal department should be absolutely independent of local changes of feeling, affections and policy generally. The importance of this cannot be too greatly emphasised, and though it may be difficult to realise in some areas that it is a cardinal principle, I am more convinced of this than of anything in the realm of taxation and fiscal affairs."

The employment of experts.

556. As regards the next tendency, namely, to entrust the work to experts, it will be opportune to quote Professor Ramsay Muir: "It is obvious that the business of government has become inconceivably more complex, elaborate and minute than it used to be—than it ever has been in the history of the world. It has become so vast and so multifarious that it can only be carried on by an

* Report of the Special Committee on Taxation of the Cleveland Chamber of Commerce, 1895, page 10, quoted in Seligman's "Essays in Taxation", pages 27–28.

† Bastable, Public Finance, page 474.

‡ The Development of the Civil Service—Lectures delivered before the Society of Civil Servants, 1920–21, page 184.

enormous and carefully graded hierarchy of officials, each expert in his own field—that is to say, by a bureaucracy "*

While every branch of administration has tended to become more and more a matter for experts, there is no branch of it in which the necessity for expert knowledge has been greater in the last few years than that connected with taxation, a branch which touches every man's pocket to an extent undreamt of a few years ago, and in which a comparatively small mistake may have the most far-reaching effects, whether from the point of view of the Government revenue or from that of justice to the tax payer and his consequent contentment or discontent One general effect of this tendency may be seen in the intimate association throughout the world of economists and taxation officials, and in the manner in which each class seeks help from the other in the solution of what has become the leading problem both of economics and of finance To take special cases, it is obvious that, under a heavy property tax, the function of a land valuer is one requiring special knowledge of a very high degree The income tax officer of to-day must not only be an expert accountant, but must have an intimate knowledge of the course of business and of any matter likely to be affected by the operation of the taxes he is required to enforce Customs tariffs again have become a matter of world trade and world politics Even the ordinary business of a gauger requires no small knowledge of chemistry and mathematics And similarly in other departments

557 The need for employing men who will first undergo a special training and then give their lives to the work leads necessarily to centralised departments, while other tendencies work in the same direction To quote an American authority again, "Conditions of administration are about as important as the rate of taxation in determining the success or failure of property and income-taxes Under a purely local system of administration there never was and never will be a generally satisfactory assessment of either income or property, for reasons perfectly familiar to us all Central control of the process of assessment is necessary for the successful operation of either a property or an income-tax, and hardly more so for the one than for the other "† Centralisation

In short, it is not possible, under a strictly decentralised system, to secure either the necessary expert knowledge or the necessary freedom from outside influence Even in England where anything that has the least

* Ramsay Muir Peers and Bureaucrats, page 11
† Article by Charles J Bullock quoted in his "Selected Readings in Public

flavour of bureaucracy is anathema, there is far more unity in the system than appears to the uninitiated. Thus Dr. Gilbert Slater writes: "The whole question of the machinery for the collection of different taxes should be regarded as quite distinct from the question of assignment of the proceeds and as needing separate consideration. It comes into the relation between the Imperial and Provincial Governments and also that between Provincial Governments and local governing authorities. Somewhat analogous problems occur in England. For instance, in London the rates are collected by the Borough Councils; but having been so collected, part of the proceeds go to the Imperial Government (Home Office, for Metropolitan Police), part to the London County Council, part to the Boards of Guardians, all of which 'levy precepts' on the Borough Council. The Boards of Guardians again, out of their share, have to pay their contributions to the Metropolitan Asylums Board and the Common Poor Fund. Then in fixing assessments for rates, the Borough Council's decisions are subject to appeal from the ratepayers on the one hand and from the Inland Revenue department of the Imperial Government on the other."

Conjunction of cognate departments.

558. The fourth proposition is mainly a matter of economy. It is obviously wasteful to have two men operating in the same area collecting different taxes when one man can do the work of both, and far better recruitment and administration can be secured in a comparatively large cadre than in a small one. Thus in England there is, to a great extent, assimilation of the grading of the staffs that deal with customs and excise, while the staff employed under the Commissioners of Inland Revenue assess and collect the great bulk of the remaining taxes, such as the income-tax and super-tax; the land tax and mineral rights duty; the estate and succession duties; and the various taxes levied through stamp duties. Even in the parishes, the same official undertakes collections on behalf of a number of local bodies and sometimes also on behalf of the Central Government. In countries on the Continent, where bureaucracy flourishes to a greater extent, these combinations are carried out in a more logical way. In Australia, America and elsewhere, where separate State and Federal staffs have been employed to collect similar taxes, for instance, the State and Federal income-taxes, movements are in force for unifying the establishments and making the collection on the same register.

559. In considering the development of the Indian system of tax administration, it is necessary to consider, in the first place, the elements out of which it has been evolved. It is perhaps not inappropriate to mention that it had its origin in days when many of the more important modern taxes were unknown in their present form in Europe. It began with a Central Government far removed from the Local Governments, which were its agents. Under these was a very small force of district officers, and under these again, the village community. The treasury was depleted, communications were bad, there was no system of banking and the tradition of the country was to entrust every sort of tax to farmers of the revenue. Accordingly, farming was the most prominent of the features of tax collection of the early days. The permanent settlement is, in essence, really a system of farming of taxes. The excise revenues were farmed in some parts till quite recent years, and toll-gates are farmed at the present day. Meanwhile, the difficulties of communications and the absence of banking facilities gave special prominence to the treasury side of the work of taxation; and the Collector became the local head of the administration in all its branches. The settlement of the land revenue strengthened him in this position, while furnishing him with a staff of subordinates; and as late as 1893 his multifarious duties were thus described by Sir W. W. Hunter in what was for many years a text-book for administrators:— Development of the Indian system—the early beginnings.

> "As the name of Collector-Magistrate implies, his main functions are twofold. He is a fiscal officer, charged with the collection of the revenue from the land and other sources; he also is a revenue and criminal judge, both of first instance and in appeal. But his title by no means exhausts his multifarious duties. He does in his smaller local sphere all that the Home Secretary superintends in England, and a great deal more; for he is the representative of a paternal and not of a constitutional Government. Police, jails, education, municipalities, roads, sanitation, dispensaries, the local taxation, and the Imperial revenues of his district, are to him matters of daily concern. He is expected to make himself acquainted with every phase of the social life of the natives, and with each natural aspect of the country. He should be a lawyer, an accountant, a surveyor, and a

ready writer of State papers. He ought also to possess no mean knowledge of agriculture, political economy, and engineering."*

The phases of the development.

560. The developments from this position have of course varied in the different provinces. But roughly speaking, they may be divided into four chief phases—

(1) Increase of specialisation by creation of new departments in the provinces.
(2) Further specialisation and transfer of departments to the direct control of the Imperial Government.
(3) Severance of the connection of the district establishments with local self-government.
(4) Further changes due to the Reforms.

Specialisation in the provinces.

561. As has been said, the developments varied largely between the different provinces. While in some specialisation in particular respects was effected years ago, in others it has still not been wholly carried out. In what follows, an attempt is made simply to trace the more general tendencies. The first department to be detached from the Collector's direct control was the Salt department, which was in some provinces put under separate officers in the eighties of the last century. In some provinces, excise was partly or wholly separated soon after, and in one case, its staff was amalgamated with that dealing with salt. The separation of the Customs followed on the reintroduction of the general tariff in 1894; and the cotton excise duties were, in some provinces, made over to the Customs Officers. Meanwhile, the increasing complexity of the land revenue system had involved changes in that case. The assessment of the land revenue had always been conducted by separate Settlement Officers; but the maintenance of the survey and settlement records had been a duty of the district officer. This was transferred in great measure to separate officers known as Directors of Land Records. Registration also was, in some cases partly and in others wholly, removed from the Collector's control. Thus at the end of this stage, he had been relieved in a very large measure, except in the case of the income-tax, of his functions as an assessing officer, though he retained in all cases, those of collecting officer, which included in the great majority the enforcement of coercive processes owing to the continuous tendency to make all arrears due to Government recoverable as arrears of land revenue.

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* Sir W. W. Hunter: The Indian Empire, pages 513-514.

562 The process of relief of Provincial by Imperial departments is of more recent date, and has so far been entered upon in the case only of three In the first place, the need of an increase in specialised knowledge in Customs led, in 1906, to the creation of an Imperial department to take over the Customs at the chief ports It was the intention at the time this order was issued gradually to extend the arrangement to all customs ports, but this intention has not yet been carried into effect, and in respect of many of them the Local Governments continue to act as agents for the Imperial Government In the case of the income tax, the large increases in the rates introduced during the War had already made it evident that something more expert was required than the method of 'felicitous conjecture which had prevailed when the Collector was responsible for the assessment of practically all the taxes Since the Reforms the matter has been thoroughly taken in hand and an expert department almost completely organised on scales of pay more or less parallel to those of the Imperial Customs In the case of the Salt department, the position has been anomalous The Government of India have been in direct control over the sources in Northern India, the Provincial Governments over those in Bombay, Madras and Burma The results, especially as evidenced by the differences in policy adopted in Madras and Bombay, have not been satisfactory Legislation has now been passed under which the whole department will be brought under central control But it is not yet known on what basis it will be organised when this has been effected

Transfer of departments to the Government of India

563 The third phase in the development, which overlaps the other two, is that relating to the case of local self government The Collector, in almost all cases, was originally the chairman of the district local board and in many cases he or one of the district officers was chairman of the local municipality In addition, numerous officials were included as members of these bodies, and as a consequence, the services of the subordinate officials were to a great measure utilised, generally unofficially, in helping them to carry out their policy The dissociation of the local official from local bodies had already commenced with the multiplication of such bodies away from the headquarters when the Decentralization Commission of 1909-10 recommended a great

Retirement of Revenue officers from local self government

speeding up of the process. By the time the Reforms were introduced, there were many bodies in which the official element had been largely reduced, if not entirely abolished, and the introduction of them was followed in some provinces by the completion of this process. One result has been that the bodies have lost, in a majority of cases, a very substantial amount of help which they received unofficially from the officials connected with them and from their subordinates. Non-official chairmen, sometimes quite inexperienced, have been faced with the task of assessing and collecting taxes with the aid of staffs which were not really equal to the work when deprived of the official support to which they had been accustomed. In many cases a breakdown of the tax administration has been the result. This change, which involved a practical, if not a nominal, withdrawal of official control and assistance, has found supporters from two opposite points of view. On the one hand, it is urged that it is the right and title of a self-governing body to be master in its own house and to have the complete control of its servants in its own hands; on the other, that when a local body imposes taxes, it should be made to collect them in order that the people may realise that it is responsible for them, and further that, if it is to be really self-governing, it must learn one of the first lessons of self-government, that is, administration. In the view of the Committee, these two contentions are both equally erroneous and ignore the fundamental difference between policy and administration. It is the function of the elective bodies to lay down the policy and to determine the rates of taxes. It is certainly desirable that steps should be taken to make it known to the tax-payers, where it is not so known, that the rates they are paying are fixed by the body responsible; but when that has been done, the assessment and the collection of rates are a matter for the executive and for the executive alone. To quote another American authority: "The greatest need of the tax system was a set of officers not dependent for the retention of their offices upon the favour of the people whom they assess."* In France, in the socialist municipality of Marseilles, the collection of the taxes is directed and the subordinate staff appointed by an officer who holds his warrant of appointment from Paris.

* Article by Thomas S. Adams quoted in Bullock's "Selected Readings in Public Finance", page 411.

564 The changes due to the Reforms have in a great measure been touched upon already They are responsible in part for the taking of the income tax and salt establishments under direct Imperial control Other sets of taxing establishments which come under the same control are those collecting port dues under the Indian Ports Act and harbour dues at the major ports Another result has been the creation of separate Excise staffs where these had been amalgamated with those dealing with salt Another effect that may be mentioned is the considerable agitation which has arisen in favour of separating all establishments which are controlled by Ministers from the rest, in pursuance of the idea that the authority of a Minister involves control of individuals under the departments which he administers It is not the function of the Committee to enter into considerations which are appropriate rather to a Public Services Commission, but it may not be out of place to repeat a quotation from Sir George Cornewall Lewis which appears in Bagehot's English Constitution "It is not the business of a Cabinet Minister to work his department His business is to see that it is properly worked" To quote Professor Ramsay Muir again "It appears, then, that a great change has passed over the government of England during the last century, and especially during the last forty years The change is commonly described as a change from aristocracy to democracy, but that is only half the truth It would be more accurately described as a change from government by amateurs of a ruling caste to government by experts under the criticism and the ultimate control of popular representatives Provided that the experts are well selected for their work, and provided that the criticism and control are efficiently exercised, this is probably the best form of government that could be devised"*

Changes due to the Reforms.

565 It will be convenient to close this review of the developments by stating briefly what are the taxation staffs employed under the Imperial, Provincial and local governing bodies, respectively, and what taxes are administered by each

Existing arrangements

566 The chief Imperial taxes are customs, income tax, salt, and the excise duties on cotton goods and petroleum The customs at the chief ports are administered by

Imperial departments

* Ramsay Muir Peers and Bureaucrats pages 27-28

the Imperial Customs department, those in the outports and on the land frontiers in Madras by the Customs department, in Bombay by the Salt department, in Bengal and Burma in some cases by officers of the Royal Indian Marine and in others by officers of the Local Government, and in Bihar and Orissa, by officers of the Local Government. In the case of the income-tax, a scheme for the imperialisation of the department has been worked out and almost completely put into force. In some provinces, the Salt department is directly under the Government of India. The arrangements in the other provinces are provincial, but will shortly be imperialised. The cotton excise duty till its suspension was collected in Bombay by the Collector of Bombay, and elsewhere generally by Customs officers. The duty on petroleum is collected in Rangoon by Customs officers, in the Punjab by officers of the Local Government. All the taxes are under the control of the Central Board of Revenue.

Provincial departments.

567. The chief Provincial taxes are the land revenue, the restrictive excises, the taxes on transactions, including taxes on entertainments and betting, and the fees, including court-fees and fees for registration. Land revenue is assessed by settlement officers and collected by the Collectors. In the case of excises on intoxicants, there is in most places an expert staff to deal with distilleries and a separate preventive staff, while the disposal of licenses and collection of the revenue is in the Collector's hands. Taxes on transactions are entirely in the Collector's hands, and court-fees are collected partly by him, but mainly by the courts. In the case of registration fees, there is a separate department in some cases, while in others it is amalgamated with the land records.

Local taxation.

568. The chief of the local taxes are octroi and terminal taxes, the tax on markets, the house and property tax, the profession tax, the tax on circumstances and property, tolls and license fees. Tolls, markets and slaughter-houses are commonly farmed. The octroi is collected by municipal staffs, among whom corruption is generally acknowledged to be common. The house and property tax is assessed, sometimes by Government officers lent for the purpose, in a few cases by expert assessors, and in others by assessment committees appointed by the local bodies. The profession tax, where it exists, and the tax on circumstances and property are assessed generally by

various classes of municipal subordinates, with an appeal to a committee of the local body In some cases these taxes also are assessed by local committees Illustrations of the unsatisfactory manner in which these taxes are administered have been given in the chapter on Local Taxation License fees are assessed by municipal subordinates With the exception of the cesses, which are assessed and collected by the revenue establishment there has been in many cases a deplorable falling off both in the collection and assessment of local taxes and numerous instances have been given of failure to pay even by the members of the local bodies themselves

569 It has been seen that the chief lessons to be learnt from other countries in respect of tax administration are dissociation from politics and the employment of experts, and that these involve centralisation and combination of establishments with cognate duties A review of the developments in India has shown that the Collector, who was formerly responsible for a number of the taxes has now been relieved in a great measure of his assessment functions, while, owing to the absence of banking facilities, he continues responsible for the collection and remittance of the revenue Meanwhile the increase of specialisation and separation of Imperial from Provincial functions has led to a multiplication of departments, while in the case of local bodies, there has been a transfer of power to elected representatives, and a function of administration which is not rightly theirs and which they are not equipped fully to perform has been thrown upon them

The general results

570 It remains to suggest a scheme that will apply the lessons that have been learnt to remedying the defects that exist and will be appropriate to the scheme of division of taxes which has been suggested In the case of the Imperial departments, the organisation of the Imperial Customs staff is satisfactory, as is that of the Income tax staff so far as it has gone The difficulties that are likely to arise in these two cases are those natural to the expanding of such departments over a continent It will not be possible always to retain officers in the provinces with which they are acquainted, and an officer going to a province of which he does not know either the language or the customs is likely to get into difficulties with regard to caste and other questions

Proposals—Imperial departments

There are also considerable difficulties connected with the isolated officers in outlying places, especially where it is impossible to dispense with an officer, though the return in revenue is hardly equal to the cost in salaries and travelling allowance both of the officer himself and of those who inspect him. In both these respects, it seems to be desirable that the Imperial department should retain a measure of touch with the local district officers, who will often be in a position to render them assistance.

In the case of the Salt department, the first problem that presents itself is to decide upon a uniform policy, after which it will be necessary to amalgamate the departments and to induce a number of men who have been brought up in different traditions to adopt a single one. The solution that suggests itself is a certain measure of interchange of officers. Another difficulty that arises in this case is due to the fact that the salt manufacturing season is generally a limited one, and throughout the monsoon period there is no work for a large part of the staff. The possibility that suggests itself is a partial amalgamation with the customs staff, both in outports and generally in preventive work. It has been pointed out that smuggling is very largely on the increase, especially on the land frontiers, and it might well be of considerable benefit, during the off-season for salt, to be able to call upon that department to strengthen the staff in particular places or to supply a flying squad to deal with special cases.

In view of the suspension of the Cotton Duties Act, it does not appear to be desirable to make any changes in respect of the staff connected with that duty, and the staff connected with the duty on petroleum in the Punjab is a matter of minor importance.

—Provincial departments

571. While in the case of the Imperial departments what has been reviewed is a condition of growth, in the case of the provincial staffs there is found to be a process of disintegration. The Collector has been relieved of a great part of his powers. The Excise departments, where they have been separated from the Salt, have been weakened by the severance, and the administration of local taxes has to a large extent broken down, in a great measure as a result of the severance of the district officers

from the local bodies The remedy in all these cases, as well as in the matter of the isolation of Imperial departments, seems to be to restore the authority of the Collector, but in a capacity quite different from that in which he exercised it in the old days This is a proposition that may be viewed with apprehension in some quarters under the impression that what is proposed is to convert the Collector again into a dictator of policy That is in present conditions no more possible than it is desirable The direction of policy has passed into other hands, but there is need now more than ever before for a competent head of the executive to see that the policy laid down is carried into effect There would be nothing alien in such action to the principles of democracy On the contrary it is in accordance with the principles in force in the most advanced democracies of the world To quote Professor Ramsay Muir again, "It is no exaggeration to say that, so far as concerns the carrying on of daily administration and the enforcement of existing laws, which is nine tenths of the business of government this country is governed by a pure bureaucracy, which is tempered only by the fact that each group of bureaucrats has to convince a distracted and ill informed politician seldom interested in any subject that is not a matter of party warfare, and has also to satisfy the lively but quite haphazard and spasmodic curiosity of the House of Commons ' * Even a closer parallel is found in the case of France, where the *Prefet*, who is independent of the Government for the time being, is the local head of the administration Some members of the Committee, however, would not advocate action on these lines until the relief of the Collector of his magisterial functions has been completed

572 To come now to the taxation functions which it is expected that under the revised constitution, such an officer should perform In the case of the Imperial departments, he should be a liaison officer, that is to say, the officers operating in his jurisdiction should keep in touch with him, he should help them with his local influence, and should advise them on matters requiring local knowledge, at the same time he should keep them advised of matters relating to their departments that came to his knowledge through representations of the

The proper functions of the Collector under the new régime.

* Ramsay Muir Peers and Bureaucrats, page 14

villagers or otherwise; and should secure their help in such matters as, for instance, the assessment of local taxes on income with reference to income-tax records.

In the case of the Provincial departments, it is desirable that he should be restored, so far as specialisation admits, to the old position of district local head, which he occupied before. Specialisation and the increase of his other functions have resulted in his being relieved of it in some provinces in the case, for instance, of excise. The problem that has to be solved in this case is not one of revenue alone, but has other aspects relating to national well-being with which it is essential that the head of the district should keep in touch. Meanwhile in the cases where the department has been weakened by severance from the Salt department, his interest will restore to it a measure of prestige. In the case of registration, the possibility of making one set of registers relating to land serve both as a record of rights and as a record of transactions is prominent in more than one province, and the persons who would be able to give most assistance in dealing with such questions are the Collectors of the districts who are in charge of the land revenue. The Committee have referred elsewhere to the loss of revenue on stamps, in which case the Collector is the adjudicating officer, and he should, if an audit of receipts is instituted, be the officer in local control of that. It is also desirable that he should be in touch with the offices mainly responsible for the assessment of stamp duties. Again, if the probate duties are extended, it has been proposed that the Tahsildars should be probate registrars, and the function of controlling them would lie upon the Collector. In short, while the Committee have no specific amalgamations to propose, they would recommend and emphasize that the Collector should be the controlling authority in his district in all matters of provincial taxation.

al
ation.

573. Similar remarks apply to the case of local taxation. The Committee would emphasise their view that it is not the appropriate function of members of popularly elected bodies themselves to carry out the executive functions of collectors of taxes, or even to control their administration by the salaried staff. They do not suggest any radical and immediate alteration of the present state of affairs. What they would do is to build up on the present foundations, and to this end they have already

made several recommendations The cases of municipalities and district boards are not quite parallel In the former it seems to them desirable that, wherever the local body can afford it it should have an executive officer who should have independent control of the tax collecting staff in the same way as the Commissioners of the large corporations have It would make for better and more *consistent administration if these officers were selected,* in the majority of cases, from the ranks of Government departments and lent for the purpose In order to preserve the prerogative of the local bodies in respect of the appointments there might be adopted the plan of submission of a roster of names from which the Government would make a selection A similar plan might well be applied in the larger towns to the appointment of the subordinate officers responsible for the collection of the house tax and profession taxes In addition, in the case of the house tax it would be useful to arrange for the periodical revision of the assessments by the loan of suitable officers who would in course of time, become expert in this work In the case of the profession tax, the assistance of the Income tax department might be secured in fixing the sums due by the persons who are liable to income tax and the collection of these amounts, together with assessment and collection of the amounts due from other assessees, should be carried out by the municipal staff above referred to In the case of local boards it is much more difficult owing to the areas over which they operate to make any similar provision for a self contained staff, and it would be more appropriate for the Revenue department to undertake the work through its ordinary staff, which might be increased, if necessary, on receipt of a small commission for doing so In the matter of appeals against the assessment of all local taxes it is desirable that arrangements should be made for hearing by an official, preferably the Collector or an experienced officer designated by him or by a court, following the practice already adopted in some of the largest towns

574 To sum up the pivot of the tax administration in the case of the Imperial taxes should be the Central Board of Revenue directing separate but co ordinated staffs to deal with the income tax customs and salt In the case of Provincial taxes there is no similar central head, but the Collector should be the district head of the staffs Summary

responsible for land revenue, excise, registration, taxes on transactions and fees. The pivot of the administration in the case of local bodies should be the executive officer, who might be a lent officer of the district staff, and who should be in touch, in the administration of the taxes, with certain Provincial and Imperial officers.

Finally, the Collector should act as a liaison officer between the Imperial and Provincial and between the Provincial and Local departments, and he or one of his assistants should also be the appellate authority in all cases of appeals against assessments to local taxes, except where provision is made for appeal to a court.

C. G. TODHUNTER,
President.

B. C. MAHTAB.
PERCY THOMPSON.
R. P. PARANJPYE.
L. K. HYDER.
JOGENDRA SINGH.

B. RAMA RAU,
Secretary.

Memorandum by Sir Bijay Chand Mahtab, G C I E, K C S I, I O M, Maharajadhiraja Bahadur of Burdwan, and Dr L K Hyder, M L A

While accepting full responsibility for the recommendations in the report to which we have appended our signatures, we deem it our duty to define in this explanatory note our attitude in regard to the results of our enquiry This matter has been all along uppermost in our minds but we could not have appropriately referred to it in the body of the report It can be stated in a few words

Taxation provides the means for the attainment, through the agency of their Government of any ends which the people of a country may choose to place before themselves These ends will depend upon the outlook of a people their aspirations for a higher and better life the growth and quickening of the public conscience and last but not least, upon the measure of political liberty enjoyed by them Whatever the stage of cultural and political development of a people may be, it is for them and their representatives in the Legislature to pronounce upon the goodness or badness of those ends and again, it is for the people and their representatives to determine in each and every case whether, granting the desirability of a given end or ends, the revenue which has to be made available is in their opinion sufficient in amount Thus both the direction of expenditure and the adequacy of the amount have to be determined by the people's representatives

To remove all manner of misunderstanding, we desire to make it perfectly clear that given certain ends, our task has merely been to inquire how the revenue for the attainment of those ends may be raised with the least amount of hardship and the least waste, to indicate, in other words, the suitability of the possible sources of revenue rather than to consider either the desirability of those ends or the determination of the amount of revenue necessary for their realisation

These are questions for the people themselves and their representatives to consider and to determine—not for us as members of a Committee, which must concern itself with the technical aspects of these questions That being clearly understood, we have agreed to sign the report

B C MAHTAB
L K HYDER

Memorandum by Dr. R. P. Paranjpye.

Like my colleagues I fully accept responsibility for the recommendations made in the report of the Committee subject to reservations which are embodied in the text on certain isolated questions, but I feel it incumbent upon me to add, first, that I can only contemplate full effect being given without difficulty to these recommendations under conditions of full political responsibility, and second, that, given the conditions which I desire to see attained, it will be not only practicable but desirable to advance considerably further in certain directions than the stages adumbrated in the Committee's report. I propose to develop these two points briefly in the following note.

I do not share the opinion, so often expressed, that taxation is bad in itself. Taxation in the first place affords a potent means of at least partially remedying inequalities in the distribution of wealth. Secondly, even in the case of the poorest classes an appreciable part of their earnings is spent in wasteful, unnecessary or even harmful ways, and it is desirable, if possible, that the State should abstract part of the amount so spent and expend it for the real benefit of these very people. For these among other reasons, taxation in conjunction with proper expenditure may be positively beneficial instead of being an evil.

It was a necessary limitation of the Committee's terms of reference that they should deal only with questions of taxation. To have also referred to them the question of the expenditure of the sums collected would have involved their ranging over the whole administration of India, Imperial, Provincial and Local, but it is a necessary corollary, in my view, that the conclusions of the Committee will be of use only after a decision has been reached on other and independent considerations as to the advisability of incurring a certain amount and kind of expenditure. It would be an improper use of the work of the Committee to impose any particular new tax or to enhance an existing one, simply because the result of the enquiries shows that it is practicable to do so, without considering the persons by whom, the manner in which and the purposes for which the money is to be spent.

In considering this latter point I desire to emphasise the fact that, in my opinion, Governments generally, and

irresponsible and partially responsible Governments in particular, are apt to pay less regard to economy when their coffers are full, and that there should be no addition to the revenues of the country for purposes of expenditure on new objects unless those objects have first been approved by the representatives of the people On the other hand, where a Government that is fully responsible exists, there are many schemes suggested by new ideas of the duties of Governments for which funds may legitimately be provided Among these I would include the utilisation of the national resources of the country by irrigation or hydro electric schemes, the provision of adequate educational facilities for all, the maintenance of proper communications, the enforcement of proper measures for the benefit of public health and medical relief, the institution of old age pensions, relief and housing of the poor and unemployment benefits, the promotion of scientific research, the encouragement and patronage of art All these are coming to be considered even in India as included among the duties of Government Nor do I anticipate that the promotion of industries will always necessarily proceed on the present capitalistic basis It may well be conceived that the State may take a larger direct part in their promotion after taking a larger toll from the richer classes

It follows from what I have stated above that, under such a system of government and for such purposes as I contemplate, I anticipate far more radical changes in the future than it has been possible under the terms of reference for my colleagues to forecast For instance, I do not consider it possible to delay indefinitely the consideration of the vested interests created by the permanent settlement of Bengal and the consequent exemption of considerable incomes from taxation Again I anticipate that a Government amenable to the people's wishes would be ready to undertake measures that impinge upon the social or religious customs of the people which are impossible to the present Government Examples of such measures are the compulsory registration of marriages and the increased taxation of the transaction of adoption I would even contemplate a radical alteration of the law of inheritance rendering it possible, not only to impose a check on the minute fractionisation of land, but also to levy something in the nature of a succession duty.

Apart from that, provided satisfactory conditions obtain in the matter of India's political and financial autonomy, it seems to me that the probate duties that have been recommended by the Committee are capable of a much wider scope than has been recommended. It is obvious of course that they cannot be pitched at once at the level in force in Western countries, and that small beginnings have to be made, and from this point of view I have agreed to the proposals of my colleagues, but I must record my opinion that in a few years these proposals will have to be extended much further, and I consider that this can be done without any real difficulty.

The last respect in which I desire an advance to be made on the proposals of my colleagues has to do with the imposition of taxation, through the income-tax and through probate duties, on incomes earned in India and taken out of the country or on incomes earned outside India by persons resident in India. When India attains a normal position *vis-à-vis* other countries in respect of its political and financial autonomy and of economic conditions, I may be prepared to accept such practices in these matters as obtain between the British Government and the Colonies, but under present conditions I think that India should take a line of its own. For this reason I have differed from my colleagues in recommending that all incomes made abroad by residents in India should be liable to Indian income-tax and that the whole of the estates of persons resident in India who die in this country should be liable to the probate duty. Lastly, I would recommend that leave salaries earned in India should be liable to Indian income-tax subject to the usual provisions for relief from double taxation. If it is contended that, in the case of officials, the exemption from this tax is one of the conditions of their employment, then I would urge that the proper course is to pay the officers in question whatever emoluments are considered necessary, but subject to the same burdens as any other citizen, in preference to giving a part of the emoluments in the shape of remission of taxation. The contention, however, is not in my opinion correct as the salaries were fixed before the income-tax and the orders of the Government of India in this matter came long afterwards.

R. P. PARANJPYE.

Memorandum by the Hon'ble Sardar Jogendra Singh

I much regret that, owing to the elections for the Council of State, I was prevented from taking part in the discussions during the final stages leading up to the report. I may mention that I agree with my colleagues in the main as to their recommendations, aiming at a better distribution of the tax burden and bringing it within the modern canons of taxation. I am constrained to write a supplementary note indicating the conditions which, in my opinion, must precede any shifting of the burden. I strongly hold that our recommendations regarding taxation must be taken or left as a whole. I do not approve of the grafting of a new and democratic system of taxation on to the old system without modifying it.

I regard taxation as a vital matter, and I feel that taxation when viciously distributed does not promote the common weal. I hold that whenever we come to consider any principle of taxation in terms of actuality, "we must take into consideration the community as it exists in fact with its knowledge and its ignorance, its beliefs, its deeper and shallower ruts and grooves of daily thought and action, its conscious past and its subconscious present." I should like to say that I feel even more strongly than my colleagues the inadequacy of the time given for such an all embracing enquiry, particularly, definite conclusions were rendered impossible by the dropping of the enquiry into the economic conditions, which I regard as an essential before any radical changes of the system can be decided upon. The Committee had to rely in making its recommendations upon grounds of theory and matters of common knowledge. In so far as they are not based upon ascertained facts, these recommendations can only be regarded as a starting point for further enquiry.

Taxation is the measure of the wisdom of a State: it registers with unfailing accuracy whether a State is aware of its *dharma*, and secures the devotion and loyalty of its people by rendering services, or by imposing unacceptable burdens, loses their loyalty and devotion. "The king shall fix", said Manu long centuries ago,

"duties in his realm in such a manner that both he himself and the man that who does the work receive their due reward. As the bees take their food little by little, even so must the king draw from his realm moderate annual taxes. As the sun draws water in his rays, so let him draw his taxes from his kingdom." I have cited from Manu that in India indirect taxes were regarded as the best source of raising revenue. I hold that still indirect taxes can be a very good source of raising revenue. In countries where scientific invention combined with organisation of capital has accelerated production, higher standards of taxation have been brought into play. In India, where the primitive plough and the handloom are still holding the field, old standards must slowly change with the pace of industrial progress. Speaking as a layman, I can say without hesitation that millions of men in India regard all payments to the State as a tax. Our need is to establish a standard of justice in taxation and realise this justice, to see that incomes below subsistence level of all classes are free from taxation and that the tax burden falls on clearly determined surplus.

India is mainly an agricultural country. There are 685,222 villages and only 2,313 towns. The bulk of our population is rural, while in England 79 per cent of the population is urban. If we divide the population into two large classes, the urban and the rural, we find that the urban classes are subject to one direct tax, the income-tax, with an exemption limit of Rs. 2,000. The rural classes are subject to the land tax, which permits no exemption even to the owner of half an acre. The burden on land is comparatively heavy, and it is desirable that it should be more evenly distributed.

The two important direct taxes are the land tax and the income-tax. I hold that land revenue is a tax on agricultural incomes and that the people enjoy full rights of property in land, and I feel that the matter should be taken to its logical issue and land tax fused with the income-tax. If the burden is to be equally distributed between the various classes of our population, the land tax must come under the Income-tax Act. I recognise that fusion will take time. In the meanwhile, a beginning might be made by gradually exempting uneconomic holdings from the land tax and subjecting them to local cesses, and at the same time fixing a fair proportion that land tax, water-rates and cesses combined should bear to

incomes from agriculture. The other plan will be to follow the lead of some of the Western countries and treat the land tax as a cess for local purposes only, and reduce it to the level of incidence in some of the Western countries. This would mean gradual reduction of the land tax and subjecting incomes from land above a specified margin to income-tax, graduated and progressive. Provincial Governments may be asked to examine these two proposals and to lay down clear rules for determining the income of the agriculturists, and the method of calculating costs of production and food allowance for the family of the producer.

In considering the burden on land there are two important items which should be considered, the water-rates and the local cesses. As regards cesses, I feel the best possible arrangement will be to treat the land tax as a cess. I am in agreement regarding the imposition of the cess for local purposes as recommended by my colleagues. Regarding the water-rate, however, I hold that irrigation is one of the essential services the State must perform at the least possible cost, and the charge for water should bear a definite ratio to the other costs of production. I do not approve of periodical revision of water-rate. This will be a new departure which will not be accepted, while the State will be always receiving increasing revenue from land as a direct benefit from irrigation.

I wish to make it clear that, in a new balanced system of taxation, when the land tax has been brought within the modern canons of taxation, it will be necessary to impose inheritance and other taxes, graduated and progressive, to raise more revenue. I wish to declare most emphatically that, without the necessary lightening of the burden on land, I am opposed to the introduction of inheritance taxes or the general extension of probate duties.

Regarding taxes on agricultural incomes, the question will not arise if my recommendation regarding the fusion of the land tax into the income-tax is accepted.

I hold then that, in considering new taxes, the principle of minimum aggregate sacrifice, combined with a clear definition of a border line below which taxation would be a bad business, and graduating the tax as the base increases above the border line, is the best way of

taxing the ability of the people. It must be recognised that the land tax is indefensible upon the meagre income of the poor people, upon which it imposes a far heavier burden than is usually recognised. In Bengal only $2\frac{1}{4}$ acres go to a worker, while in England a worker has 21 acres. The pressure of population in New Zealand and the United States of America is 11 and 11.6 per square mile, and in East Bengal it is as high as 1,000 to a square mile. It is this population and its meagre resources with which we are dealing and the endeavour should be that there should be equity for all classes and equality of the burden. The principle of taxation should apply without any variation to the non-agricultural and agricultural population, bearing in mind that net income is the sole and immediate source of a tax, whether it is derived from land or from trade or from the manufacture of raw materials.

JOGENDRA SINGH.

SUMMARY OF THE COMMITTEE'S CONCLUSIONS *

The following is a summary of the more important of the conclusions arrived at by the Committee —

THE SCOPE OF THE PROBLEM—

(1) The sources of the revenue of a State have been classified by modern writers on the following lines —(a) State domains and tributes (b) Fines and penalties, (c) Business undertakings and monopolies, (d) Fees, (e) Taxes (¶ 10)

(2) In order to determine which items of revenue fall within the scope of their enquiry, the Committee have adopted the following definition of taxation as a working basis "Taxes are compulsory contributions made by the members of a community to the governing body of the same towards the common expenditure without any guarantee of a definite measured service in return" (¶ 11)

(3) The Committee do not consider revenues from State domains from fisheries and mines or forests The land revenue has some of the characteristics of a rent as well as of a tax but they have been specifically instructed to enquire into its incidence and they therefore include it (¶ 12 to 15)

(4) Fines and penalties are of two kinds —

(i) those imposed in connection with regulation of revenue, which the Committee treat as taxes

(ii) those imposed primarily for purposes of restraint, which they do not (¶ 16)

(5) There is no agreement among economists as to the classification of revenue from State undertakings In determining the element of taxation in the net profits from railways posts and telegraphs and opium, profits on coinage, irrigation receipts, and receipts from enterprises of local authorities the Committee have been largely guided by practical considerations (¶ 17 to 23)

(6) As regards fees where the utilisation of services is rendered compulsory by legislation, there is an element of taxation but the element of payment for services still prevails When the fees exceed the value of the services, there is true taxation (¶ 24)

* This summary was prepared after the Committee had dispersed

CAPITATION AND APPORTIONED TAXES—

(7) Poll taxes are open to the obvious objection that they are regressive in character; they are far more common than is generally supposed in Europe, in America, in the British Empire and in Eastern countries; but they have ceased to be important sources of revenue in the more advanced States (¶ 31).

(8) The principal taxes of this nature that now survive in India are confined to Burma (¶ 36).

(i) The *thathameda* of Upper Burma is theoretically not a poll tax, but in many parts operates as one (¶ 39).

(ii) The capitation tax of Lower Burma, being a poll tax at a flat rate, operates with less discrimination than the *thathameda*, and has never lost the stigma which attached to it when it was imposed by the Burmese Kings as a tax on conquered races (¶ 40).

(9) The grant of the option to local bodies under the Burma Rural Self-Government Act of 1921 of converting these taxes into a circumstances and property tax is an appropriate way of providing for their extinction. The Committee recommend that the process of conversion should be expedited (¶ 39 and 40).

(10) The proposed tax on sea passengers, which seems likely to operate as a tax on transport and to impose a check on the flow of labour from province to province, is regarded as a development in the wrong direction (¶ 41).

(11) The endeavours made to replace the arrangements under which the villagers tax themselves for watch and ward have led to confusion and inequality (¶ 43).

(12) The *chowkidari* and other taxes still levied in certain provinces for this purpose are theoretically unobjectionable, but are complained of in practice. The conversion of these also into sources of local taxation, subject to proper control, is recommended as a desirable development (¶ 46 and 47).

THE LAND REVENUE—

Part I—Revenue from agricultural land—

(13) From a survey of the systems of land taxation in other countries it would appear that the tendencies of modern development are as follows:—

(i) The flat rate of tax on annual or capital value is kept comparatively low.

(ii) Incomes from and property in land are treated for purposes of income tax and death duties on exactly the same footing as other incomes and property

(iii) Where an increasing share has been taken of the return from land it has generally been taken for local purposes (¶ 51)

(14) The Indian systems are the result of a gradual process of evolution from indigenous practices and they have been moulded into their present shape by British officers quite independently of one another to suit local circumstances in different provinces (¶ 52)

(15) Except in British Baluchistan the land revenue has ceased to represent a portion of the gross produce In the United Provinces the Punjab and the Central Provinces the Government demand is theoretically based on economic rent but actually takes many other factors into consideration In the case of Madras and Burma the assessment is theoretically based on the net produce while in Bombay the rate of assessment is arrived at empirically with reference to general economic considerations and in practice is based rather on the actual rents paid than on any theoretical calculations of the net produce (¶ 77)

(16) The Committee are divided in opinion as to whether or not the land revenue should be regarded as a tax on the individual who pays it but they are agreed that since it forms a deduction from the national dividend, it should be taken into consideration in dealing with the question of the incidence of taxation on the country as a whole (¶ 84)

(17) Application of the canons of taxation to the land revenue

(i) *Certainty* —This canon is satisfied (¶ 86)

(ii) *Convenience* —Convenience has in some respects been sacrificed to certainty

The inelasticity of the systems drives a number of people to the money lender during bad seasons

The system of making settlements that last for a generation may necessitate a change in the standard of living when the period comes to a close

When the process of settlement continues for years and involves meticulous enquiry by a large staff, the inconvenience and expense to the ryots concerned is very considerable (¶ 87).

(iii) *Economy*.—The application of this canon cannot be decided on considerations relating to the land revenue alone. If the assessment and collection of the land revenue were the only matter in issue, it would be practicable to devise a scheme under which the present revenue could be collected at a much smaller cost. The justification of the high cost of the settlement and collectorate establishments must be looked for in directions that are outside the scope of the Committee's terms of reference (¶ 88).

(iv) *Ability*.—Land revenue is essentially a tax on things and not on persons and as such it is not a tax to which the doctrine of progression can be applied. The Committee therefore confine their attention to the question of the burden of the land revenue on the land, in other words, the proportion which the Government demand bears to the economic rental or net profits in the different provinces. Even in this respect they are unable to discover any acceptable basis of comparison and are forced to the conclusion that the uncertainty as to both the basis of the assessment and the rate is one of the chief respects in which the systems are open to criticism (¶ 89 to 95).

(18) The results flowing from the fact that land revenue viewed as a scheme of taxation is not only not progressive, but actually tends in the opposite direction, are aggravated by the conspicuous absence of provision for an income-tax on agricultural incomes or a death duty, which serve in the more advanced European counties and Japan to introduce an element of progression into the taxation of the land (¶ 96).

(19) Of the alternatives suggested, the proposals for the redemption of the land revenue either in part or in whole, or for the substitution for it of a tax on produce are impracticable for reasons given. The adoption of a

tax on capital value on Australian lines is less so, but would involve changes of a more radical nature than is necessary (¶ 98 to 101)

(20) The essentials of a new scheme of temporary settlements are that it should be definite as regards both the basis and the pitch of assessment, that it should be as simple and cheap as possible, that it should so far as possible ease or steady the burden on the smallest cultivator, and finally that it should, in common with the rest of the system of taxation, involve some element of progression in the case of the larger owners (¶ 102)

(21) The Committee recommend that these essentials should be secured by providing that for the future the basis of the settlement should be annual value, i e, the gross produce less cost of production, including the value of the labour actually expended by the farmer and his family on the holding, and the return for enterprise The functions of the settlement officer should be limited to the ascertainment of this value on a uniform basis A uniform rate fixed for a whole province should then be applied to these valuations as they were made on districts falling in for resettlement (¶ 103 and 105)

(22) In the case of controlled rents, where the rent is fixed by the settlement officer or is limited by law or by custom having the force of law, such rent should be taken to be the annual value (¶ 104)

(23) Where the practice of levying *nazaranas* exists, their annual equivalent spread over the term of the lease should be added to the rent for the purpose of determining the annual value (¶ 104)

(24) The rate of assessment should be standardised at a comparatively low figure not exceeding 25 per cent of the annual value (¶ 105)

(25) The reduction in the share borne by the land revenue to the total taxation should be accompanied by an increase in the local rate, the maximum for the ordinary rates being fixed at about 25 per cent of the sum taken as land revenue (¶ 107)

(26) It is not possible, in the case of a tax *in rem* to relieve the poorest cultivator by an exemption (¶ 96) The relief of his difficulties is to be found in a better system of rural economy generally (¶ 108)

(27) The obvious ways of introducing an element of progression in the case of the large holder are through an income-tax on agricultural incomes, or through something in the nature of a succession duty, or both (¶ 109).

Part II—Revenue from non-agricultural land—

(28) Where land outside the limits of towns or villages which is assessed to land revenue on the basis of its crop value is diverted from use for cultivation, it should be liable to re-assessment on the basis of its annual value for other purposes (¶ 111).

(29) House sites in villages should continue free of assessment, but all future grants should be made subject to the levy of ground-rent, if and when the village becomes a town (¶ 112).

(30) In the case of town lands that have been permitted to be occupied free of provincial taxation or at a nominal rent, it is impracticable at present to impose anything in the shape of a provincial tax (¶ 113).

(31) In the case of town lands that pay agricultural assessment, there is no reason why the assessment should not be based on annual value, provided due notice is given (¶ 113).

(32) In the case of lands still under Government control, the procedure laid down in the orders relating to ground-rents is satisfactory (¶ 115).

(33) The practice of making over to municipalities a substantial fraction of the receipts from town lands should be generally adopted, but the management of the lands should be left in the hands of the revenue authorities (¶ 116).

(34) As regards the taxation of unearned increment—

(i) It is both impracticable and unfair to impose a tax on increments in land values that have already accrued.

(ii) It is not impracticable to tax future increments, especially in large towns which can afford to employ highly paid competent staffs, if an account is maintained of improvements effected after a fixed date with a view to deduction of their value on the occasion on which the duty is levied (¶ 117).

THE CHARGE FOR WATER—

(35) Wherever possible the charge for water should be separated from the charge on the land (¶ 138)

(36) The minimum charge except in the case of protective works should be the cost of supplying the water, that is to say the cost of maintenance of the irrigation work *plus* interest on capital cost, and the normal charge should be a moderate share of the value of the water to the cultivator (¶ 138)

(37) The rates which should be fixed with regard to prices area irrigated crop raised and other considerations should be as few as possible, and they should be examined periodically with a view to increase or decrease (¶ 138)

(38) Where the demand is not constant and the ryots agree to pay for water whether they require it or not, a reduced payment for a term of years may be accepted (¶ 138)

(39) Where a guarantee of supply is newly given a reasonable share of the addition made to the capital or annual value of the land by such guarantee may be taken (¶ 138)

TAXES ON CONSUMPTION—CUSTOMS—

Import duties—

(40) Recent revisions of the tariff have had far reaching effects (¶ 143)

(41) Some of the duties that are not protective in intention are protective in operation (¶ 143)

(42) Other duties are exercising a restrictive effect on trade (¶ 144)

(43) So far as conclusions can be drawn from the figures of incidence they tend to indicate a certain amount of shifting of the burden from the richer classes to the general population (¶ 145)

(44) A higher rate of duty can safely be imposed on wine, beer and spirits (¶ 146)

(45) A reduction of the duty on the conventional necessities of life, such as sugar and on the raw materials of industry and means of production is desirable (¶ 145)

(46) The Committee endorse the opinion of Dr Gregory that the customs tariff should be the object of periodical survey, and recommend that an expert enquiry be undertaken forthwith (¶ 147)

(47) When the Sea Customs Act comes up for revision, section 30 should be amended so as to make the charge on invoice price *plus* cost of freight the normal procedure and the charge on a price which includes the wholesaler's profit the exceptional one (¶ 149).

(48) Conditions in India offer many facilities for smuggling operations. The Committee recommend that a skilled preventive officer should be deputed to compare and co-ordinate the arrangements in the different provinces, not only at the main ports, but also at minor ports, along the coast and on the land frontiers (¶ 152).

(49) An ideal arrangement would be the institution of a customs zollverein, but this is not practical politics at present (¶ 153).

Export duties—

(50) The Committee accept in general the recommendations of the Indian Fiscal Commission, that export duties should be levied on articles of which India has a complete or a partial monopoly, that the rates in any case should be low and that an export duty should not be utilised for the purpose of protecting an industry (¶ 154).

(51) They do not recommend any increase in the rate of duty on jute or any alteration in the rate of duty on rice (¶ 156 and 157).

(52) The duty on tea may continue for the present, but it should be removed or reduced if and when the conditions of the trade indicate that it is having a prejudicial effect (¶ 158).

(53) The majority of the Committee agree with the Fiscal Commission in considering that the duty on hides is wrong in principle and dangerous in its effects, and advise its early abolition. The duty on skins may however be retained, but the matter should be examined by the Tariff Board at a suitable opportunity (¶ 159).

(54) The imposition of an export duty on lac is recommended (¶ 160).

(55) As regards oil-seeds and manures a majority of the Committee recommend that an export duty should be levied and that a part of the export duty should be applied towards educating the cultivator to make an increased use of artificial manures (¶ 162).

TAXES ON CONSUMPTION—EXCISES FOR PURPOSES OF REVENUE—

Salt—

(56) The duty on salt falls on a necessary of life and to the extent that salt is essential for physical existence it is in the nature of a poll tax (¶ 164)

(57) The present rate of duty is appropriate and causes no serious hardship, changes in the rate should not be made except in cases of grave emergency (¶ 168)

(58) The system of monopoly supply in Northern India and at Kharaghora results in the issue of salt of a good quality at a reasonable price (¶ 175 and 179)

(59) The Committee do not recommend any radical change in the systems of supply in Bombay and Madras, but think it desirable that steps should be taken to secure more control over stocks and prices and to assimilate the arrangements in the two provinces, especially in the matter of guarding and accounts (¶ 178)

(60) The obstacles to the supply of Indian salt to Bengal should be removed, and India should be made self-supporting in the matter of salt supply, if this end can be secured by the grant of a strictly temporary advantage to the local manufacturer by means of a rebate of duty or of a differential duty on imports An enquiry should be made into this aspect of the question by the Tariff Board (¶ 179)

(61) The rules regulating the issue of duty-free salt for use in industries are satisfactory The rules in force in Bombay regarding issues for use in agriculture should be made general (¶ 180)

(62) The present concession as regards duty-free issues for the purpose of fish curing should be continued so long as it does not involve any cost to the Imperial Government in excess of the actual duty remitted The concession should, however, be extended to all provinces (¶ 180)

Cotton piece goods—

(63) If for revenue purposes a general excise is considered necessary, an excise duty on locally manufactured cotton goods, coupled with an adequate customs duty on

imported goods, need not necessarily be condemned so long as the burden on the consumer is not too great (¶ 186).

(64) The Government of India are, however, pledged to remove the present tax as soon as financial considerations permit. The Committee therefore class it among the taxes to be abolished (¶ 186).

Petroleum—

(65) There is no urgent case for the reduction of the duty on petrol. Should remission of taxation become possible, the Committee would give preference to the tax on kerosene, which falls on all classes of the population (¶ 187).

Matches—

(66) The statistics available to the Committee do not indicate that the time for the introduction of an excise duty on matches has yet arrived; but the matter will require examination by an expert body sooner or later (¶ 189).

Aerated waters—

(67) An excise duty on aerated waters, to be levied by means of a tax on cylinders of carbonic acid gas issued for this purpose, is a comparatively unobjectionable way of raising revenue (¶ 191).

Patent medicines—

(68) An excise duty on patent medicines, accompanied by the application of a similar duty to imported patent medicines, is a suitable form of taxation (¶ 192).

Tobacco—

(69) Tobacco is universally recognised as a suitable object for taxation (¶ 193).

(70) Of the plans suggested, a Government monopoly in India would be too vast an undertaking to be considered (¶ 195).

(71) An acreage duty presents considerable administrative difficulties and would probably excite resentment, and it is consequently not recommended (¶ 195).

(72) A local excise on all production would be impracticable, but the increases in the tariff make one desirable in the case of cigarettes and pipe tobacco made in factories (¶ 199 and 200).

(73) The experience of Indian States and Foreign territories in India disprove the idea that very little revenue is to be derived from a system of licensing (¶ 198).

(74) The Committee recommend an excise duty on locally-made cigarettes and pipe tobacco, accompanied by an indirect excise through a system of licensing in the case of country tobacco (¶ 199 and 200).

TAXES ON CONSUMPTION—RESTRICTIVE EXCISES—

(75) In the case of country spirit, a system of supply through a managed monopoly should be extended wherever possible, and the rate of duty should be raised in Bihar and Orissa and Assam. Where it is proposed to depart from the auction system of disposal of licenses, the sliding scale system is recommended as satisfactory, if supported by a sufficiently large and efficient preventive staff (¶ 226).

(76) In the case of foreign liquors, a definite increase in the tariff rate is recommended in lieu of vend fees being imposed in the shape of additions to the tariff rate. The tariff rate should also be levied on 'foreign' liquors made in India, and arrangements should be made to credit all the duty on foreign liquor, whether country-made or imported, to the Imperial head (¶ 226).

(77) In the case of country fermented liquors, the tree-tax system should be extended wherever possible, but only under rigid and systematic control; and experiments should be expedited in the direction of bringing the brewing of country beers under control (¶ 226).

(78) In the case of hemp drugs, a system of contract supply or managed monopoly should be introduced where it does not exist, and enquiries should be made as to the proportion of the intoxicating principle in the *bhang* consumed and as to the practicability of making up the *ganja* in a more uniform and consistent form (¶ 226).

(79) In the case of opium, the cultivation should be restricted, the stock should be reduced, the duty made uniform, the auction system abandoned and experiments made in making up the drug into pills of a fixed size (¶ 226).

(80) The necessity for employing a special force to deal with inter-provincial smuggling is emphasised (¶ 225).

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(79) In the case of opium, the cultivation should be restricted, the stock should be reduced, the duty made uniform, the auction system abandoned and experiments made in making up the drug into pills of a fixed size (¶ 226)

(80) The necessity for employing a special force to deal with inter-provincial smuggling is emphasised (¶ 225).

(81) Action already taken in the direction of prohibition has involved a very large loss of revenue and increase in crime (¶ 227).

(82) The consistent pursuit of a policy of real prohibition would involve the exploitation of every alternative source of possible revenue (¶ 227).

TAXES ON INCOMES—

Part I—General—

(83) In the assessment of incomes the loss sustained in any one year should be allowed to be set off against the profits in the next subsequent year, subject to the condition that any assessee who claims to have made a loss must prove the fact by producing his accounts as soon as possible after the close of the year in which the loss is made (¶ 230).

(84) The effect of section 42 (1) of the Income-tax Act is to impose a much wider charge on the non-resident than is desirable. The law and practice should be brought into conformity with those adopted in England (¶ 236 to 238).

(85) The law in respect of refunds to non-residents should also [illegible] similar to that prevailing in England at present (¶ 2[illegible]

(86) Th[illegible] it of [illegible] ion and the almost universal p[illegible] marr[illegible] e allowances for dependents [illegible] (¶ 24[illegible]

(87) A [illegible] betw[illegible] d and unearned income is no[illegible] d in [illegible] circumstanc[illegible] of India, but [illegible] d [illegible] if at any [illegible] incomes deriv[illegible] e liable to [illegible] (¶ 242).

(88) The [illegible] 100 and [illegible] countri[illegible] to [illegible]

The limit for super-tax should at the same time be reduced to Rs 30,000 and a new rate of super-tax of 6 pies on the first Rs 20,000 or part thereof in excess of that sum introduced In the case of the joint Hindu family the limit of exemption* might be reduced to Rs 60,000, the same rate being applied to the first Rs. 10,000 of excess (¶ 244)

(89) The super-tax on companies should be converted into a corporation profits tax, the exemption of the first Rs 50,000 should be removed, and holding companies should not be assessed to this tax on profits which represent dividends of subsidiary companies (¶ 251)

(90) The necessary steps should be taken to secure an appeal to the Privy Council on points of law in respect of which conflicting decisions have been given (¶ 246)

(91) While secrecy in respect of income-tax matters is desirable, exceptions might be made (a) by permitting income-tax officers to draw up lists of persons who are liable to local taxes which are based on income and (b) by publishing in the annual reports the names of persons penalised for income-tax offences (¶ 250)

(92) The most suitable method of preventing evasion by the formation of private companies and the withholding of dividends is to give the income-tax authorities power to treat such companies as if they were " (¶ 252)

(93) In order to prevent evasion through the tion of bogus firms, (1) the incomes of married living together should be taxed at the rates ap to their aggregate incomes, (2) the income-tax should be given power in particular cases to req partners in an unregistered firm to furnish partic the partnership, and to compute the liability of ners on the same basis as if the partner-' registered, (3) particulars of the registration should be recorded by the income tax officers be open to inspection, and (4) it is desirable for the imposition of a heavy penalty in e of duty has arisen through failure to distrib in accordance with the terms of a partner '

Part II—Income-tax on agricultural incomes—

(94) There is no historical or theoretic for the continued exemption from the

incomes derived from agriculture. There are, however, administrative and political objections to the removal of the exemption at the present time (¶ 263, 264, 267 and 268).

(95) There is ample justification for the proposal that incomes from agriculture should be taken into account for the purpose of determining the rate at which the tax on the other income of the same person should be assessed, if it should prove administratively feasible and practically worth while (¶ 269).

(96) The planter or other manufacturer who derives his income partly from cultivation and partly from manufacturing the produce so derived is fortunate in securing the benefit of the exemption (¶ 270).

(97) The money-lender who is a landlord only in name ought in equity to pay the tax, but it does not seem administratively practicable to impose it (¶ 271).

TAXES ON TRANSACTIONS—

(98) The existing entertainment taxes are appropriate and may be levied elsewhere. The power to levy the tax and the administration of it should be retained in the hands of the Local Governments, a share of the proceeds being made over to the local bodies concerned (¶ 273).

(99) Betting is recognised in many countries as a suitable object for taxation, and the form of the taxes levied in India is not objectionable (¶ 274).

(100) Municipal bodies should be given discretionary power to levy taxes on advertisements (¶ 275).

(101) A tax on railway tickets of the higher classes, which has been advocated by some witnesses, is not recommended (¶ 276).

Duties under the Stamp Act—

(102) The Indian Stamp Law fulfils its purpose satisfactorily and no drastic changes are recommended (¶ 283).

(103) The duty on documents of indebtedness such as bonds and mortgage deeds should be reduced as soon as circumstances permit (¶ 284).

(104) The distinction drawn between documents by which possession is given and that by which it is not should be removed (¶ 285).

(105) The rate charged on reconveyances should be reduced to 2 annas per Rs 100 of the mortgage debt and the existing maximum of Rs 10 should be removed (¶ 286)

(106) In the case of deeds of cancellation, the duty should be that payable on the instrument sought to be cancelled, subject to a maximum of Rs 5 (¶ 287)

(107) The duty on deeds of transfer should have regard to the value of the rights actually transferred (¶ 288)

(108) The duty on deeds of adoption should be reduced to Rs 5 where the property involved is of a value not exceeding Rs 2,000 A reduction may also be made in the case of deeds of authority to adopt (¶ 289)

(109) The duty on a settlement should be enhanced to the equivalent of the duty on a deed of gift (¶ 290)

(110) When a deed of release operates to convey property, it should be charged at the rate appropriate to a conveyance (¶ 291)

(111) In the case of deeds of partition land should be valued for purposes of duty at its actual value and not at a multiple of the assessment (¶ 292)

(112) The present fixed duties on instruments of partnership might be abolished and a duty at 4 annas per Rs 100 substituted (¶ 293)

(113) In the case of companies an *ad valorem* stamp duty on the nominal share capital at the rate of 8 annas per Rs 100 might be levied and the duty on the articles of association and memorandum of association might be reduced to Rs 10 (¶ 294)

(114) It is recommended that the distinction for purposes of duty between documents that are attested and those that are not should be done away with (¶ 297)

(115) Also that it should not be optional to the parties to fix values for purposes of duty other than the true values (¶ 299)

Stock and produce transactions—

(116) The issue of a contract note should be compulsory, both where a broker acts in that capacity and where he sells stock on his own account (¶ 303).

(117) It is hoped that it may be possible, with the aid of the stock exchange authorities, to put a stop to the loss of revenue arising from the use of blank transfers (¶ 305).

(118) In the absence of such action, the duty on contract notes should be raised to 4 annas for every Rs. 10,000, subject to a maximum of Rs. 40 (¶ 306).

(119) In the case of the produce exchanges the taxation of futures is not only practically impossible, but on other grounds it would be undesirable to recognise these gambling transactions and to attempt to secure a revenue from them. It may be possible hereafter to secure a revenue from contract notes on the lines indicated in the case of the Stock Exchanges (¶ 309).

Penalties—

(120) For the existing maximum penalty on unstamped or insufficiently stamped documents there should be substituted a penalty of twice the deficient duty *plus* a sum of Rs. 5 (¶ 310).

(121) The limitation of the period within which a document can be voluntarily produced for rectification of the stamp duty should be removed (¶ 310).

(122) The disability of inadmissibility in evidence should be limited to the case of bills of exchange and promissory notes (¶ 311).

(123) From the point of view of the administration of the stamp law uniform legislation and unified rates of stamp duty are desirable (¶ 316).

FEES—

(124) Fees for the registration of vehicles should not be more than sufficient to cover the expenses of examining and registering the vehicles and testing the drivers (¶ 319).

(125) The fees for possession of firearms might be increased in the case of weapons licensed for purposes of sport and display and in that of numerous weapons possessed by the same person (¶ 322).

(126) A cautious experiment might be made in selected local areas in the imposition of a fee for the registration of marriages, provided it is made clear that the purpose of the registration is merely to afford superior probative value of the fact of marriage (¶ 323).

(127) The fees charged for the registration of companies might be reduced, if a stamp duty on the nominal share capital is levied as recommended by the Committee (¶ 325)

(128) Recent increases in the fees for the registration of documents do not represent an increase in the element of taxation It is permissible to increase these fees up to the point where they correspond to the probable value of the benefit derived (¶ 329)

(129) The fees for mutation of names in the revenue registers might with advantage be made more uniform *Ad valorem* fees would not be appropriate in this case (¶ 331)

Court fees—

(130) The pitching of the scale of the court fees so as to produce a revenue just sufficient to cover all the costs of the administration of civil justice is an ideal to be aimed at, but financial considerations may justify the State in charging something more, provided that the fees charged do not cause substantial hardship to any class (¶ 334)

(131) A record should be maintained on uniform lines in each province to determine what is the amount of fees actually levied in the course of litigation, what is the actual cost of the courts and how the one compares with the other (¶ 335)

(132) The copyist and process services should just pay for themselves (¶ 335)

(133) The system under which the fees are fixed on a graduated and regressive scale with reference to the value of the subject matter litigated is suitable, but effect might be given to the principle of measuring court-fees by the cost of the service rendered to the extent of taking the fee in two instalments, the first being payable at the institution of the suit and the second on or immediately after the settlement of issues (¶ 337 and 338)

(134) The Court Fees Act and the schedules thereto need thorough revision by an expert committee (¶ 339)

(135) Section 7 should be recast and a schedule prepared similar to that in the Indian Limitation Act of suits and appeals which commonly arise in civil courts with a method of valuation prescribed for each (¶ 340 and 341)

(136) Provision should be made for recovery of deficient fees in decided suits (¶ 342).

(137) A series of instances is given of cases in which the fees are inadequate (¶ 343).

(138) In the matter of court-fees uniformity is desirable, not only as regards general principles, procedure and methods of realisation, but also as regards rates (¶ 346).

(139) In particular it is desirable that steps should be taken to render the fees on the Original Sides of the Chartered High Courts so far as possible uniform with one another and not less than those in courts in the mufassal (¶ 347).

(140) The fees payable on applications to revenue and other officers should be examined and abolished except possibly in the case of those on applications which involve enquiries of a judicial nature (¶ 348).

(141) Fees paid in cash to officers of Government should also be subjected to scrutiny (¶ 350).

(142) An audit of receipts is recommended in the case both of stamp duties and of court-fees (¶ 351).

PROBATE DUTIES—

(143) A succession duty is impracticable in India, but a duty on the lines of the English Estate Duty, which may initially take the form of a transfer or mutation duty on death, is more practicable (¶ 357).

(144) This involves representation of the deceased, which is desirable on other grounds (¶ 358).

(145) The existing law provides for it in certain cases, but is limited to particular communities (¶ 359).

(146) The taxation that it involves is very inequitable in its incidence (¶ 361).

(147) The Committee recommend its modification and extension to all communities, and discuss the means of effecting this (¶ 366 and 367).

(148) They do not find the law of the joint Hindu family an insuperable obstacle (¶ 369).

(149) The legislation dealing with the question should be undertaken by the Central Legislature (¶ 382).

LOCAL TAXATION—

(150) A comparison with conditions in other countries indicates that the difficulties in local administration in India, and especially the unwillingness of the people to submit to taxation, is mainly due to the large jurisdictions of the local bodies (¶ 384 to 386 and 394)

Taxes on trade—

(151) The octroi and the terminal tax in the form in which they are levied in India offend against all the canons of taxation (¶ 398)

(152) It is a function inherent in the Imperial Government to protect inter provincial traffic from obstruction by taxes imposed by subordinate authorities, and it is regretted that the Government of India have to so large an extent abandoned their control of a matter that is of paramount importance to the trade of the country (¶ 402)

(153) Four possible means of replacing these taxes are discussed, viz —

(a) a rate on land and houses,
(b) a profession tax,
(c) market dues and taxation of private markets,
(d) a tax on retail sales (¶ 403 to 406)

(154) If it is not possible to adopt any of these alternatives, general principles to govern the levy of octroi and terminal taxes in future are indicated (¶ 409)

Tolls—

(155) Where a terminal tax is levied and the rates are raised beyond a certain level, terminal tolls on the roads are necessary to prevent evasion (¶ 413)

(156) General municipal tolls are justified when they form part of a scheme for the taxation of vehicles (¶ 414)

(157) Ferry charges are apt to develop into a pure tax on transit (¶ 416)

(158) Tolls on district roads are undoubtedly an impediment to through traffic It is desirable to abolish them, at least in the case of motor vehicles, and to replace them by a provincial tax on the vehicle In case this is done, the import duty should be reduced (¶ 417 to 419)

Taxes on property—

(159) The rates of property tax in India are very low and there is considerable scope for increase in the assessment of town property (¶ 403).

(160) Another outstanding feature of the property tax in India is the inefficiency of the machinery of collection and assessment. The remedy for this state of affairs lies in provincial control (¶ 434).

(161) In view of the recommendation for the standardisation of the land revenue at a comparatively low rate, it is suggested that the maximum limit on the rate of cess on agricultural land be altogether removed, or at least be raised to 6¼ per cent of the annual value (¶ 439).

(162) In the case of works executed by local authorities for the benefit primarily of specific areas, it is recommended that the local authority concerned should be in a position to recover the whole or a portion of the cost in the shape of an annual cess imposed for a limited period on land in those areas (¶ 442).

Taxes on persons—

(163) The assessment of the tax on circumstances and property has given rise to widespread complaints of *unfair incidence*, while the levy of the profession tax has been found to be administratively difficult. It is recommended that the assessment and collection of these taxes in rural areas should be entrusted to the general administrative staff of the districts (¶ 444 and 445).

(164) The tax on pilgrims is theoretically objectionable, but the rate is so low that it involves little hardship or addition to the expenditure which the pilgrimage normally involves (¶ 447).

(165) A light terminal tax on passengers may be appropriate in the case of a large city, but the tax of Rs. 2 levied in Rangoon on passengers departing by sea is difficult to justify (¶ 448).

General—

(166) The general rate of local taxation in India is very low. This is partly due to the fact that the taxation of land, which should be the main basis of local taxation, has in a great measure in India been reserved for

the State and partly to the fact that the jurisdictions of local bodies are so large as to remove them from effective touch with the tax payers (¶ 454)

(167) It is recommended that from the point of view of taxation at any rate the development of the future should be in the direction of restoring the influence of the village panchayat and limiting the functions of the bodies at present operating (¶ 454)

Local taxation of railways—

(168) Where it is proposed to include a railway colony within the area of a municipality it is recommended that provision should be made for the railway authorities to be heard by the Local Government before any order is issued approving the inclusion (¶ 461)

(169) In the case of an existing colony within a municipality where the railway company derives some benefit from a municipal service or services for which a specific tax is imposed but not the full benefit which the levy of the tax implies it is suggested that a reasonable basis of agreement between the company and the municipality would be the remission of a proportion of the tax paid by the colony to be fixed on principles indicated (¶ 462)

(170) The assessment of railway property to the general municipal rates should be based on the principle that the service rendered to a railway can best be gauged by the extent and value of property used for the reception and despatch of goods and passengers The method of assessment of such property followed in Bombay is recommended for general adoption (¶ 466)

(171) The exemption from the cess on land enjoyed by the State and guaranteed railways under the Bengal Cess Act should be extended throughout India if there are any railways that do not enjoy it (¶ 470)

(172) There is no sufficient justification for the exemption of railways from the *chowkidari* tax (¶ 471)

Local taxation of mines—

(173) There is no necessary anomaly in the fact that the general taxes on mines are based on annual value and net profits and the special taxes sometimes on raisings and sometimes on despatches (¶ 474)

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Local taxation of mines—

(173) There is no necessary anomaly in the fact that the general taxes on mines are based on annual value and net profits and the special taxes sometimes on raisings and sometimes on despatches (¶ 474)

(174) But an arrangement under which the same rate of taxation is applied to the annual net profits of a mining enterprise as to the annual value of agricultural land must make for differential taxation (¶ 475).

THE DISTRIBUTION OF THE BURDEN—

(175) An estimate of the proportion borne by average taxation to average income has a very limited value (¶ 478).

(176) It was not possible within the time of the Committee's appointment to secure new data on these or any other lines, nor is the existing material sufficient to enable an estimate to be framed of the economic condition of the various classes of the people (¶ 479).

(177) The Committee are therefore thrown back on such general considerations relating to typical classes of the population as a prudent Finance Minister would examine in framing or revising a scheme of taxation (¶ 479 and 493).

(a) *The urban labourer.*—The burden on this class has increased during recent years. It will, to some extent, be reduced by the abolition of the cotton excise duty. It is not desirable to reduce the salt duty or the excises on intoxicants, and a decrease in the customs duties and in the municipal taxes on consumption is indicated as the more satisfactory course (¶ 482).

(b) *The landless agricultural labourer.*—The burden on this class is very low, and it would be benefited by the abolition of the excise duty on cotton goods and by a reduction in customs duty on goods consumed by all classes (¶ 483 and 501).

(c) *The small landholder.*—The difficulties of this class are not primarily the result of taxation. In order to afford it relief it has been suggested that the land revenue should be standardised at a flat rate not exceeding 25 per cent of the annual value (¶ 484 and 501).

(d) *The peasant proprietor*.—The burden of this class is comparatively light. The only recommendations made that are likely to affect it are the extension of the probate duties and the raising of the rate of local cesses (¶ 485).

(e) *The large landholder*.—Except in individual cases, the burden of this class is comparatively light. The possible means of increasing its contribution are by the imposition of an income tax on agricultural incomes or the extension of the probate duty (¶ 486).

(f) *The village trader*.—This class escapes certain taxes intended to affect it and should be brought within the scope of further taxation by a more general extension and a more efficient administration of taxes of the nature of the circumstances and property tax and the profession tax (¶ 487).

(g) *The small trader in towns*.—The contribution of this class is more than that of the previous one owing to municipal taxation, which may well be raised (¶ 488).

(h) *The larger trader*.—This class escapes with a comparatively light burden, but would be affected by the extension of the probate duties, the steepening of the graduation of the income tax and the increase in local taxation (¶ 489).

(i) *The big merchants*.—Though this class bears a large portion of the tax revenue, its burden is not as heavy as that of similar classes in other countries. It would be increased by the extension of the probate duties, by the increase in the super tax and by the abolition of the exemption limit in the case of companies (¶ 490).

(j) *The professional classes—lower grades*.—This class has suffered under recent developments, but its tax burden is comparatively small (¶ 491).

(k) *The higher professional classes*.—The position of this class is similar to that of the largest merchants (¶ 492).

THE ORDER OF PRECEDENCE—

(178) A change almost amounting to a revolution has already taken place in the proportions borne by the different taxes to the total revenue. The tendencies that have brought this about have been generally in the right directions (¶ 496 to 498).

(179) As regards the tendencies that are now in operation, (a) a policy of real prohibition would involve a loss of revenue exceeding the return from any new proposals which can be put forward, (b) the pledge given in relation to the cotton excise involves provision for its replacement, (c) it is impossible to forecast the further effects of the policy of discriminating protection or of high customs duties for revenue purposes, (d) an increase in the import duties on imported liquors is desirable on special grounds (¶ 498).

(180) The Committee do not include local taxation in their recommendations regarding the order in which taxes may be remitted or imposed (¶ 502).

(181) Subject to these considerations, the following is the order of priority suggested in the case of the remission of taxation:—

(a) Reduction in the customs duties on conventional necessities, especially on sugar, with a view to affording relief to the poorest classes.

(b) The removal of the export duty on hides.

(c) In the case of non-judicial stamps, a revision of the schedule in the direction of reduction, especially in relation to documents such as bonds and agreements.

(d) Standardisation of the land revenue, which will ultimately result in a further reduction of the proportion borne by the land revenue to the total taxation.

(e) Reduction of court-fees, especially by the collection of the court-fees on suits in two instalments and by the cessation of the practice of making a profit out of the fees for copying and for service of processes (¶ 502).

(182) The following order of priority has been suggested in the matter of substitutes for taxes removed or reduced, including the cotton excise and the loss under restrictive excises —

- (a) Proper collection of duties on stock exchange transactions
- (b) Conversion of the super tax on companies into a corporation profits tax and the abolition of the exemption limit
- (c) Regrading of the income tax and introduction of a super tax on incomes from Rs 30,000 to Rs 50 000
- (d) Enhancement in the rate of duty on country made foreign liquors up to the tariff rate and an increase in the excise duty on country spirits in Bihar and Orissa and Assam
- (e) Increase in the license fees for firearms
- (f) Taxation of patent medicines
- (g) A general extension of probate duties
- (h) Extension of the tax on entertainments and betting
- (i) Imposition of taxation on tobacco through means of an excise on local manufactures or an increase in the import duty on unmanufactured tobacco coupled with a system of licensing of sales of country tobacco
- (j) Export duties on lac oil seeds bones and other manures
- (k) An excise duty on aerated waters
- (l) The imposition of income tax on agricultural incomes is put in the last place for reasons which are explained (¶ 503)

THE DIVISION OF THE PROCEEDS—

Part I —Imperial and Provincial—

(183) There is no ideal system of division of sources of taxation between Imperial and State Governments (¶ 505)

(184) A system of separation of sources is the best if a scheme can be discovered which gives to each Government a revenue adequate to its needs and at the same time effects a fair division between them (¶ 511)

(185) Where this is not possible, a system of division of the proceeds of taxes is better than a system of subsidies (¶ 512)

(186) Certain taxes are essentially Imperial, namely, import duties; revenue excises; and revenue derived from the export of opium.

The revenue from non-judicial stamps is much more appropriate to the Imperial than to the Provincial head. It is desirable that the duty on country-made 'foreign' liquors should be levied at the tariff rate and be credited to the same head as the import duty. The increasing restrictions that are being imposed upon excise opium suggest that it is desirable that this item of revenue also should be credited to the Imperial Government, which undertakes responsibility for the restrictions (¶ 508, 522 to 524).

(187) Certain taxes are essentially Provincial, namely, land revenue and receipts from irrigation; taxes on transactions other than those levied under the Stamp Act; fees, including court-fees; and revenue from the licensing of sale of tobacco (¶ 508, 521, and 523 to 525).

(188) The following taxes afford possible balancing factors: income-tax, export duties, restrictive excises other than on opium, and probate duties (¶ 522, 523, 526 and 528).

(189) The absence of an income-tax on agricultural incomes and the large proportion of the total revenue that is derived from the land make a division of the income-tax unavoidable if the division is to be fair to industrial and agricultural provinces alike (¶ 528).

(190) If equilibrium can be secured by this means alone, it is undesirable to use the other balancing factors; in other words, the export duties should be entirely Imperial and the restrictive excises, other than that on opium, and the probate duty entirely Provincial.

The Committee's proposals therefore reduce themselves to the transfer of non-judicial stamps and the excise duty on country-made 'foreign' liquors, and possibly the revenue now derived from excise opium, to the Imperial Government, and the establishment of equilibrium by the transfer to the provinces of a share of the income-tax (¶ 539).

(191) The most satisfactory means of determining such a share is to make over the proceeds of a basic rate on personal incomes, graduated proportionately to the

general rate to which should be added a small proportion of the receipts from the corporation profits tax (¶ 536 and 537)

(192) It is not within the Committee's functions to suggest a detailed revision of the settlement between the Government of India and the Provinces and they therefore leave the application of the principles suggested by them to some other body (¶ 539)

(193) While Devolution Rule 15 appears to have failed of its object it does not appear practicable to revise it except as part of the general revision (¶ [illegible])

Part II—Provincial and Local—

(194) The Committee have recommended an increase in the resources of local bodies—

(a) by conversion of the *thathameda*, the capitation tax and the *chowkidari* into sources of local revenue,

(b) by standardising the land revenue so as to give greater scope for local taxation of land and by the imposition of special assessments,

(c) by transfer to local bodies of a share of the collections of Local Governments from ground rents in towns and by increasing the rates on non agricultural land,

(d) by giving municipalities the power to tax advertisements,

(e) by extending the imposition of taxes on entertainments and betting and giving local bodies a substantial share of the proceeds,

(f) by extending and improving the administration of the taxes on circumstances and property and the profession tax,

(g) by reducing the import duty on motor cars and enabling Local Governments to levy a Provincial tax for distribution in lieu of tolls,

(h) by grant of power to levy a fee for the registration of marriages in selected areas (¶ 516 to 548)

(195) When all these allotments are made, the resources of local authorities will still req[uire to be supple]mented by subsidies (¶ 55

(196) The manner in which these should be distributed is an administrative question, but the following principles are recommended :—

(a) Subsidies should ordinarily be restricted to services which are of national importance.

(b) They should be granted on a system which will enable the Provincial Government effectively to enforce efficiency.

(c) They should be granted on some uniform and easily comprehensible plan so worked out in advance that the local body can arrange its programme of expenditure in good time and provide for a due adjustment between that, its expected receipts and its scheme of taxation (¶ 552).

THE MACHINERY OF TAXATION—

(197) The effect of past developments has been—

(a) that the Collector has been relieved in a great measure of the function of assessment, while remaining responsible for collection and remittance;

(b) that the increase of specialisation and the separation of Imperial from Provincial functions have led to multiplication of departments; and

(c) that, in the case of local bodies, there has been a transfer to elected representatives of functions which are not rightly theirs (¶ 560 to 564).

(198) The Committee's recommendations are as follows :—

(1) *Imperial taxes.*—The pivot of the tax administration in the case of these taxes should be the Central Board of Revenue, directing separate but co-ordinated staffs to deal with the income-tax, customs and salt (¶ 570).

(2) *Provincial taxes.*—In the case of Provincial taxes, there is no similar central head, but the Collector should be the district head of the staffs responsible for land revenue, excise, registration, taxes on transactions and fees (¶ 571 and 572).

(3) *Local bodies* —The pivot of the administration in the case of local bodies should be the executive officer, who might be a lent officer of the district staff, and who would be in touch, in the administration of the taxes, with certain Provincial and Imperial officers (¶ 573)

The Collector should act as a liaison officer between the Imperial and Provincial and between the Provincial and Local departments, and he or one of his assistants should also be the appellate authority in all cases of appeals against assessments to local taxes except where provision is made for appeal to a court (¶ 570 to 573)

The estimated cost of the Indian Taxation Enquiry Committee up to the 14th December, 1925, excluding the charges for printing the report and the evidence, is Rs 1,47,000